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REFERENCE -

PRR

Country PANAMA

Project No. 525-11-720-048

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Project Title GOVERNMENT ADMINISTRATION AND FISCAL REFORM

Cit

Submission Date October 15, 1969 Original X Revision No. _____

Proc

U.S. Obligation Span--FY 1962 thru FY 1976

Loop

Physical Implementation Span--FY 1963 thru FY 1976

Pers

Gross Life-of-Project Financial Requirements (thousands of U.S. dollars)--

FRB

AID Contributions U.S. Dollars--

Grant

4,427

Loan

8,700

Other U.S. Contributions U.S. Dollars--

0

Cooperating Country Contributions (Cash value excluding existing physical facilities & existing equipment)

16,632

Other Contributions

0

Total Contributions

29,759

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OFFICE

PAD

PHONE NO.

64-4011

DATE

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APPROVED BY:

DIR. DLazar

AID AND OTHER CLEARANCES

ODP: *JPhilpott*

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I Summary Description of the Project

A. Summary of Conditions Necessitating the Project

The government administration project is designed to improve the will and capacity of the GOP to respond more effectively to the legitimate demands of the Panamanian people. In this effort U.S. assistance is targeted on those selected areas of government activity most deeply involved in the nation's development programs and the institutions and forces involved in their planning, financing and execution.

Some indicators % of Panama growth during the period 1960-1968: a population which increased 29.4% from 1,061,000 to 1,373,200. School enrollment rose 45.5% from 211,000 to 307,000. Kilometers of road in the Republic increased 89.5% from 3,550 to 6,720. Gross national production rose 69.5% from B/. 407.6 Million to B/. 747.2 Million, with an average of 1.2% annually going to gross capital formation. Total consumption within the private and public sector increased by 63% from B/. 273.9 Million to B/. 530.6 Million.

Growth in over-all size of the public sector during the same period is reflected in a 119% increase in the ordinary budget from B/. 99.5 Million to B/. 190.9 Million. Ordinary revenues rose 106% from B/. 68.0 Million to B/. 137.9 Million (in part as a result of a series tax reform measures described later on in this PROP). National government employment grew 74% from 23,004 to 39,809.

Another measure of response is indicated by growth of autonomous agencies' operations. In an attempt to improve public housing, the Instituto de Vivienda y Urbanismo was created in 1958. Water and sewerage services were combined into the Instituto de Acueductos y Alcantarillados Nacionales in 1961. And the same year responsibility for electric power generation and transmission was vested in the Instituto de Recursos Hidráulicos y Electrificación. The total of autonomous agencies' employees increased 174.0% from 3,421 to 9,366.

In summary, the total of public employment, including the National Guard, increased 57.4% during the period 1960-1968.

* Source: Directorate of Statistics and Census

	1968	1960	Percent Increase
Ministries	34,389	23,884	44.0
Autonomous Agencies	9,406	3,428	174.4
Municipal Gov't.	1,626	1,545	5.2
Total	45,421	31,857	

As the development agencies increased in size, it became increasingly clear that their policy and administrative mechanisms - products of the pre-development-era were not functioning well. Key agencies needed to improve organizational structure, administrative capabilities, competence of personnel and over-all responsiveness if the short and long range programs of the administration were to be carried out successfully.

GOP is concerned at the high incidence of administrative weaknesses that impede the achievement of development goals and the provision of essential government services. Specific problems are: a general weakness in government wide expenditure and fiscal controls, the lack of an effective central procurement and maintenance operation, low output and poor employee morale, generally burdensome procedures, a widespread lack of executive controls and communication. These and other impediments to performance were identified in the report of a reconnaissance survey of the major management and administrative problems facing the GOP. This survey was financed by the USAID and is described in detail later in this paper.

The public sector is faced with the task of raising its general level of operating efficiency, and in a manner to strengthen its credibility among various sectors of the population - rural and urban, low income and well-to-do. A degree of confidence and general acceptance must be generated if the government is to carry out an effective role in bringing growth of a vigorous and increasingly sophisticated private sector, and rationalizing the sometimes conflicting policies and programs involved.

In general, the largest share of public services are supplied through national government agencies and their field organizations. This concentration of the forces of development into channels of central control is

Indicated by combined employment figures of the ministries and autonomous agencies which rose 60% from 27,312 to 43,795 during the period 1960-1968. The relatively static role allocated the municipalities is suggested by local government employment which - during the same period - increased only 5.2% from 1545 to 1626.

Panama's land and resources may be on a scale appropriate to centralized direction. It is believed, however, that the employment of development forces in the long run is more effective when full use is made of all levels of government. Preliminary studies in the areas of community development, city planning, local government and rural development show a potential for increasing the effectiveness of local institutions in both the public and private areas. Opportunities are suggested for more intensive investigation of Panama's development processes and their relation to the smaller community and its institutions.

B. Summary of the Project to Date

2.1. Administration for Development

In June 1969, the GOP requested loan assistance to expand beyond the range of present government improvement activities into a broad program of what is called "Administrative Reform". It is based on a survey ~~of~~ Panama's public sector performance in (1) moving toward the nation's development goals and (2) furnishing essential governmental services. Survey recommendations for a five year improvement program costing \$7.4 Million were adopted by the GOP which has requested an AID loan to defray half the implementation costs (largely management consulting services) with an equal amount to be provided through direct financing by GOP. Discussions are now underway.

2.2. Local Government

To date grant funding within this activity has been directed to studies such as those assessing the capability of smaller municipalities to engage in loan-financed self liquidating local projects, exploring opportunities and sources for increasing local revenues, etc. Discussions are underway with the Panamanian Inter-Municipal League to explore its capability for providing a wider range of facilities and services to members, meanwhile serving as a more effective agent in dealing with the central government.

** Report on the Reconnaissance Survey of the Public Administration of Panama, June 1969.

3. Planning - National and Regional

Grant financed contract technicians will conclude, by the middle of 1970, their assistance to the Directorate General of Planning and Administration (DGPA). Such assistance has been directed toward strengthening the DGPA's institutional capacity to effectively carry out its functions as the central planning agency for the public sector. In FY 1970 new loan funds will begin to supply assistance in broadening DGPA's functions to include regional and local planning. This latter assistance is described in the PROP for project 525-15-099-119 (Urban Development).

4. Revenues Administration

Technical assistance in tax administration is being furnished the Directorate General of Revenues (DGR) as a continuation of a sub-project that began in 1965. A four man team of advisors furnished under PASA with the U.S. Internal Revenue Service assists DGR in the areas of collection, audit, training, management, data processing and related fields.

A customs advisor, supplied under PASA with the U.S. Bureau of Customs, assists the DGR in upgrading its customs functions in such areas as the application of duties, internal controls, cargo documentation, and contraband control. It is planned that the customs and tax PASA's will continue under the loan-financed administrative reform program.

Technical assistance on tax policy and legislation is provided the Ministry of Finance by one contract advisor (short-term).

5. Census and Statistics

TDY and short-term contract technicians will assist the Directorate General of Statistics and Census upgrade the quality of its data production. Extra assistance is being given the office as it prepares for the 1970 Census of population and housing.

6. Short Term Activities

Brief periods of advisory services are from time to time provided GOP in the administration of functions such as civil aviation, social security and related areas.

C. Summary of Project Future

It is planned that the project will undergo two changes of importance during the course of FY 1970. First, its scope will be significantly broadened as attention is directed simultaneously (a) to the improvement of administrative functions and processes common to government and (b) to the resolution of the major management problems of selected development agencies. The former will provide benefits to all government agencies, including autonomous agencies. The latter will provide additional benefits to specific government entities directly concerned with national development.

Second, the support base of the project will shift from all grant to largely loan funding. The five-year administrative reform program will be financed, half under terms of an AID loan to GOP and half from direct GOP funding via its annual budget.

PASA's with IRS and U.S. Customs will be loan financed as will be a wide variety of management consulting services called for in the reform program. Grant financing of the planning contract will cease in 1970. In the future, grant financing will be directed mainly to monitoring by USAID staff; participants, local government, legislature and short term activities.

Authority and responsibility for conduct of the administrative reform program will rest in part with a presidential commission and in part with the DGPA. The commission will deal with policy and coordination aspects of the undertaking, the DGPA with direct implementation requirements.

D. Contributions to the Project by the GOP

1. Administration for Development

GOP has agreed to provide personnel, supporting services, commodities and contract professional services in the amount of \$3.7 Million as its contribution to the administrative reform program. Funds will be budgeted annually as follows:

<u>CY 1970</u>	<u>CY 1971</u>	<u>CY 1972</u>	<u>CY 1973</u>	<u>CY 1974</u>
725,000	1,225,000	1,070,000	500,000	200,000

2. National Planning

GOP support of the national planning activity is indicated in the following figures from the Planning Department of the DGPA.

<u>Planning Department</u>	<u>CY 1965</u>	<u>CY 1966</u>	<u>CY 1967</u>	<u>CY 1968</u>	<u>CY 1969</u>
Budget (Salaries)	89,820	141,660	201,970	237,640	255,000
Positions	24	26	40	44	46

The contract technical assistance team has ^{also} been furnished office space, secretarial services, and in-country travel by the DGPA which will provide the same support items in FY 1970.

3. Revenue Administration

Detail of this support is shown in the following data on the Directorate General of Revenues (DGR) since inception of the tax and customs administration improvement activities. Tax and customs advisors are furnished office quarters and facilities and secretarial services by the DGR.

<u>Dir. Gen. of Revenues (Tax and Customs)</u>	<u>CY 1965</u>	<u>CY 1966</u>	<u>CY 1967</u>	<u>CY 1968</u>	<u>CY 1969</u>
Budget (Salaries;000)	1,903	2,043	2,676	2,823	3,168
Positions	752	776	917	932	1,108

4. Other Activities

Similar support is furnished by the GOP to other activities involving short-term consultants providing technical assistance in connection with statistics and census, civil aviation, central procurement and the Reconnaissance Survey.

E. Assistance Provided to Date by USAID

USAID/Panama has provided technical assistance to the project through a Public Administration Officer since FY-1966, a Public Administration Advisor since FY-1968 and a second Public Administration Advisor beginning the second half of FY 1969 at a total cost of \$199,952 through FY-1969.

{The services of the three public administration advisors are being programmed through FY 1975, primarily for monitoring the administrative reform program to be partially funded by the Development Administration Loan. This advisory support requirement will be reviewed as loan implementation progresses.

Services of the IRS Tax Team providing technical assistance in tax administration has been furnished at a cost of \$609,746 from FY 1964 through mid FY-1 73.

A Customs Advisor has assisted in customs administration at a cost of \$102,700 from FY-1966 till mid FY 1973. A contract consulting team has provided assistance in strengthening the national planning system of the DGPA from FY 1966 through FY 1970 at a cost of \$731,922.

Miscellaneous costs are incurred in other activities including the provision of technical assistance in the fields of statistics and census, civil aviation, social security, legislature, procurement and supply, a reconnaissance survey, municipal administration and tax policy.

Tabulation of Planned Contributions to the Project

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NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

Table 1
Page 1 of 1 pages

PROP DATE October 15, 1969
Original X
Rev. No. _____
Project No. 525-11-720-048

9

COUNTRY: Republic of Panama Project Title: Gov't Adm & Fiscal Reform

Fiscal Years	Ap	L/G	Total	1/		2/										
				Cont		Personnel		Services		Participants		Commodities		Other Costs		
				AID	PASA	CONT	Dir. & U.S. Ag	CONT	Dir & U.S. Ag	CONT	Dir & U.S. Ag	CONT				
Prior through Act. FY <u>1969</u>	AL		3,700	3/	2,700		850	2,700			150					
	TA/CF		2,578		1,052		826	1,042		142	17	10		28		
Oper. FY <u>1970</u>	AL		0													
	TA		488		82	168	189	77		42				7		5
Budg. FY <u>1971</u>	AL		5,000	3/	300						3,000			1,700		
	TA		255		37	169		32		42				7		5
B + 1 FY <u>1972</u>	AL		0													
	TA		274		57	172		54		38				7		3
B + 2 FY <u>1973</u>	AL		0													
	TA		250		53	160		50		30				7		3
B + 3 FY <u>1974</u>	AL		0													
	TA		230		53	141		50		30				6		3
All Sub. Yrs. <u>1975</u>	AL		0													
	TA		352		66	232		60		42				12		6
Total All Yrs.	AL		8,700		3,000		850	2,700			3,150			1,700		
	TA/CF		4,427		1,400	1,555	1,015	1,365		366	17	10		74		25
Total L & G			13,127		4,400	1,555	1,865	4,065		366	3,167	10		1,774		25

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1/ Memorandum (donadd) column.
2/ Includes Local & TCN Personnel Costs.
3/ These loan funds will be expended over the course of three or more years.

Table 1

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Project No. 525-11-720-048

Fiscal Years	AID-controlled		Other Cash Contribution Cooperating Country	Other Donor Funds (\$ Equiv.)	Food for Freedom Commodities		
	Local U.S. - owned	Currency Country- owned			Metric Tons (000)	CCC Value & Freight (\$000)	World Market Price (\$000)
Prior Through Act. FY <u>1969</u>			12,932				
Oper. FY ___ <u>1970</u>			725				
Budg. FY ___ <u>1971</u>			1,225				
B + 1 FY ___ <u>1972</u>			1,070				
B + 2 FY ___ <u>1973</u>			250				
B + 3 FY ___ <u>1974</u>			200				
All Sub. Yrs <u>1975-</u> <u>1976</u>			230				
Total All Yrs.			16,632				

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II Setting for the Project - Conditions and Trends

A. National Government

The Constitution of 1946 provides for a National Government with legislative, executive, and judicial branches. The unicameral assembly authorizes programs and appropriates funds. The executive branch proposes and carries out programs. It is headed by the President, consists of ten ministries and, at last count, twenty-six autonomous and semi-autonomous agencies.

On the whole, performance of public sector institutions has been hampered by structural weaknesses such as faulty organization structure, lack of management controls, conflicting legal authorities and insufficient central mechanisms for expressing national policy and coordinating implementation efforts. This role, envisaged for the Directorate General of Planning and Administration (DGPA), is only now emerging.

Operational efficiency within the public sector is adversely affected by several factors. One is a lack of senior public servants experienced in agency affairs. Consequently, policy formulation and direction at the ministerial levels varies, sometimes markedly, with each succeeding incumbent. In the past, presidential control, hindered by the need to obtain support from coalition parties, has resulted in the appointment of policy level officials who tended to pursue their respective party platforms without sufficient regard for general public policy. Employee development programs, as such, are lacking, though in-service training programs are carried out in virtually all agencies. Other personnel factors inhibiting overall performance are nepotism and the spoils system, ^{the} first persistent, the second most marked at the beginning of each new administration.

In some areas, the growth of public institutions was accompanied by attempts to improve on older forms and techniques of administration. Some examples are found in the agency reorganizations made in an attempt to improve services in housing and the public utilities. The national government functions of personnel, budget and administrative studies were consolidated and a new responsibility created for national planning. The various revenue collection functions were combined into a new entity (DGR). These and other changes made in the public sector were not always accomplished with sufficient skill, but they are indicative of a sense of innovation and purpose. A variety of factors may have contributed to this end. These include the emergence of well trained younger men, products of advanced training or university education in the U.S. The Panama Canal Company, Canal Zone Government and other U.S. installations in the Canal

Zone employ medical, engineering and other Panamanian professionals and thereby provide examples of modern management practises. The University of Panama offers a curriculum in public administration and sponsors seminars for government employees in cooperation with international agencies. Government pay-scales, while less than those common to larger business firms, are not unreasonably low and the administrative career system, covering 4,500 employees, has served a limited but useful purpose.

1. Planning and Administration

In 1959, legislation was enacted to create within the Ministry of the Presidency a new agency, the Directorate General of Planning and Administration (DGPA), which was to act as the principal staff arm of the President. A relatively new function, national planning, was given important status within the DGPA. To this were added the related activities of budget, personnel and organization and methods. By 1963, a preliminary five year Development Plan had been drafted and submitted to CIAP. Given the time and resources available it could be considered an adequate beginning. Certainly, within Panama it had the effect of enhancing the role of DGPA and of focussing attention on a document which brought together for the first time an assessment of domestic resources and an evaluation of requirements needed to support a development program. In 1965, as the full scale of the planning and programming task became clearer, GOP requested a package of technical assistance to strengthen the planning department, start a technical training program, develop sectoral studies, and include criteria for project evaluation, investment projections and a program to improve intergovernmental planning coordination. Such assistance was furnished through a contract financed by AID.

As this sub-project enters its final year it is evident that the institutional role of the DGPA has been strengthened and particularly so during this last year under the present government. Requests from the Ministries for DGPA technical assistance exceed its capacity to perform. There is increasing and continued recognition within Ministries of the leading advisory role of DGPA in matters related to economic and social planning. (This office took a leading part in developing material and working with the Rockefeller Mission, IDB Mission, World Bank Mission, etc.). In 1967, and again in 1968, Economic Reports were completed for presentation at the annual CIAP country reviews.

Completion of the national development plan is scheduled

for 1970 following the issuance of sectoral diagnoses of housing, Electrification, Health, Transport and Agriculture. A variety of special reports have been issued dealing with the budget process, fiscal incentives, quota system, foreign exchange multiplier and a methodology of short and long term revenue projections. Eight staff technicians have received academic training in development economics at universities in the U.S., Puerto Rico and Chile. To strengthen its performance in the areas of budget and personnel the DGPA has contracted the services of two U.S. management consulting firms now mobilized and at work.

2. Administrative Reform

By 1967 improvements in the central planning process and in revenue collection encouraged the GOP to consider attacking government administration problems on a broad front and early in 1967 it formally requested assistance in seeking to improve the essential structure and operation of those agencies having major responsibilities for the country's economic and social development. Subsequent discussions suggested a sector loan for program of improved public administration for which GOP would bear one-half the costs and take prime responsibility for implementing.

In order to prepare for the Development Administration Loan it was agreed that a Reconnaissance Survey was needed to supply in sufficient detail the type, level and cost of technical assistance required and to identify other forms of assistance required.

Objectives of the Reconnaissance Survey were two fold:

- (1) to identify administrative problems impeding achievement of national development goals of the provision of essential public services;
- (2) to program a comprehensive plan for the modernization of the public administration as the best means to assure the success of all other development plans.

These objectives will be sought through a program of "administrative reform" within the public sector. As used in this context the term administration is synonymous with management, and is viewed as a cyclical process of planning, execution, control and evaluation.

A total of 18 agencies were included in the survey, including six ministries, the DGPA, Office of the Controller General, six

autonomous agencies, the three largest municipalities, and the national legislature.

The Survey Report ** contains scopes of work and estimated costs for improving executive control; providing closer relationship between central government and autonomous agency programs; reorganizing key development agencies; improving fiscal operations with respect to revenues, expenditures, budgeting, accounting, auditing and reporting; revitalizing and expanding the administrative career service; establishing institutional training for government personnel and developing the effectiveness of municipal administration. A presidential implementation commission representing both the private and public sectors will formulate overall policy for application at the national level, provide direction and control for the program and report on progress and accomplishments. Execution requirements of the undertaking will be vested in a new program management office to be located in the DGPA. This office will (a) program, schedule, monitor and report on the technical assistance sub-projects comprising the program and (b) administer provisions of the AID loan and the matching GOP budget contribution.

Total cost of the undertaking is estimated to be \$7.4 Million, half to be financed by the Development Administration Loan, half to be direct budget support from GOP. The entire undertaking is estimated to require five years with implementation scheduled to begin in FY 1970.

** Source: Report on the Reconnaissance Survey of the Public Administration of Panama, June 1969

3. Revenue Administration

Panama was selected in 1962 for the first fiscal survey undertaken by the Joint Tax Program of the OAS, the IDB, and the Economic Commission for Latin America. As a result of this survey, the GOP revised its income tax legislation in December, 1964, taking a major step toward more equitable, efficient, and productive tax policies. At the time, it was recognized that potential revenues would not be realized without very substantial improvements in administration.

As a consequence, GOP requested AID to provide technical assistance in tax administration to the Directorate General of Revenues (DGR). Such assistance has been furnished since 1965 through a Participating Agency Service Agreement (PASA) with the U.S. Internal Revenue Service (IRS). Since that time, tax administration practices in the Ministry of Finance have improved significantly in the areas of audit, collection, training, management, data processing and related revenue fields.

In 1965, GOP requested assistance in strengthening the customs performance of the DGR and this was provided through a PASA with the U.S. Bureau of Customs. Customs, (like taxation) was one of the several revenue producing activities brought together to form the DGR. In the process, a number of typical custom functions were moved to other sections of the DGR. The customs department was limited to assessment and collection of duties with no investigative authority and no responsibilities for the flow of merchandise into or out of the country. Although relief for the basic organizational problem has been authorized by legislation, corrective action has been slow and the customs project is being reviewed. Improvements have been made in such areas as strengthening internal controls, establishing effective cargo documentation procedures, improving the application of customs duties and increasing contraband control activities.

4. Statistics

The Directorate of Statistics and Census (DSC) located in the Office of the Controller General is covered by the administrative career system, has a preferential salary scale, adequate funds for its programs and access to the CG's automatic data processing facilities.

The DSC has been the recipient of U.S. technical assistance since the beginning of the government administration program, consisting mainly of short-term experts from the U.S. Bureau of Census and participant training. It is planned to continue this mix in the future. The DSC is preparing for the 1970 Censuses of Population and Housing and USAID has increased its level of assistance as a consequence. In addition to this decennial undertaking, the agency has been assisted toward re-evaluating its demographic concepts and in the production of data valuable for family planning purposes. Economic data, including manpower and employment studies, market-basket surveys and reports from the private sector continue to require evaluation and further attention to improve their timeliness, reliability and adequacy.

D. Legislature

Panama's National Assembly was dissolved by action of the provisional junta government in 1968 and no longer functions. National elections have been scheduled to take place in 1970 and it is expected that the next Assembly will resume its constitutional role in 1971. At that time it is planned to provide a program of technical assistance in the administration of legislative reference and library services and professional staff development.

C. Local Government

In Panama the municipality, more or less analogous to a U.S. county, is the basic territorial unit of government and is defined in the constitution as a district with sufficient economic capacity to support a proper local government. Sixty-three such municipalities are presently contained within the nine provinces of the Republic. Although municipalities have not enjoyed the degree of autonomy authorized by the constitution, they remain the primary instruments of local government and constitute the entities for central government administration. Provincial administration, consisting of part-time governors and clerical staff, does not appear to be a significant factor contributing to either the national or local level of government.

Municipal authority is vested in a mayor appointed by the central government and a municipal council which, prior to October, 1968, was the only popularly elected body other than the National Assembly. The provisional junta government, upon taking office, removed the elected councilmen, replacing them with its own appointees.

Local governments are vested by law with a considerable degree of responsibility for the conduct of affairs within their jurisdictions. In practice, however, their freedom of action is limited by strictures placed upon the use of central government subsidies and the requirement that 1/3 of all local tax collections be allocated to supporting local services such as Education, Health, Fire Department, etc., on a fixed percentage basis. The local income base is limited to such low revenue items as taxes on commercial establishments, automotive vehicle license fees, sale or rental of municipal property and the like. Any additional funds needed for small local projects must come from voluntary contributions of land or labor or from fund raising affairs. Larger projects are normally financed wholly or largely by the central government.

Local governments, in relation to the central government, enjoy limited authority and financial resources. During the period 1960-1968 the number of employees increased by only 5%, from 1545 to 1626. During the same period the total of local annual expenditures rose from \$3.2 to \$5.9. The 1946 constitution permits municipalities an important role, declaring in fact that the State itself rests upon the community of autonomous municipalities. In practice, however, the central government has continued to strengthen its dominant role over the years. Although the Constitution makes provision for either the election or the appointment of mayors only one such election had been held to date.

Nevertheless, if a reasonable share of the benefits of development are expected to reach out beyond the large urban centers, local initiative and participation must be increased and local recipients will need to share more decisively in selecting projects for their districts. A long step in this direction was made possible recently when a national decree authorized the DG of Community Development to strengthen local government as an administrative mechanism for mobilizing local resources.

The conduct of local government at its various levels warrants continued analysis. The character and depth of local initiative (what is the mix, and what makes it go?) are vital factors in the development of community cooperation and should be examined at the same time. Further study should be made of the bases for the central government's historical indifference to upgrading the role of local government. A greater understanding of matters such as these should precede - or at least go hand in hand - with obvious nostrums such as broadening the municipalities' tax base or increasing subsidies from the central government.

A potentially useful factor on the local government scene is the Inter-Municipal Association or the Asociación Panameña de Cooperación Municipal (APCI). Although small, underfinanced and understaffed, APCI, made up of representatives of Panama's municipalities, is nevertheless a start in the direction of a force outside the central government which might organize municipalities into an organization with political sinew and thereby help to secure its members some of the revenues they need, and provide staff assistance in local government administration. APCI needs large amounts of technical and financial assistance, but it is functioning and might provide one alternative means of accelerating the process of providing increased services at the local government level.

D. Changes to be Sought

Panama's efforts to create an efficient and responsive public sector, one capable of programming and maintaining development programs, are the basis of this project's assistance in the areas of revenue policy and administration, planning, statistics, administrative reform, legislature and local government.

Changes expected to occur as the result of this project are as follows:

1. Public Finance

a. Effective scope of the country's fiscal policies and controls will extend to all autonomous agencies. Social Security Agency financing and loan operations will be rationalized and made compatible with over-all public sector financial policies.

b. Revenue policies and legislation will be clarified, new revenue sources and requirements will be under continuous evaluation and more effective use will be made of taxation as an instrument of development.

c. Government revenues will have increased significantly through continued improvements in the techniques of tax and customs administration and the institutional capability of the revenue agency will be re-inforced. New accounting practises will supply the individual agencies and the central financial management agencies with records and facilities for adequate reporting and analyses of financial condition. Effective and evaluative post audit procedures will be

used to review government commitments and financial transactions. Program budgeting will be in effect in all agencies.

2. Planning

A national program of development plans covering all major sectors of the economy will be operational. DEPA, the ministries and the autonomous agencies will have attained an effective level of coordination of their respective planning and programming objectives.

3. Local Government

The municipalities will be making effective use of technical assistance in increasing capabilities of public and private sector institutions, responsive field organizations of central agencies will be in effective communication with local citizenry, wider citizen participation in community affairs will be generating new initiatives, available local human and financial resources will be increasing and allied with those of the central government as part of the country's development efforts.

4. Statistics

The office will be publishing analyses and data on population and housing derived from the 1970 census. Statistical reporting units in each of the agencies will be coordinated under the Directorate's guidance. Private sector data and analyses will be substantially increased in scope, accuracy and timeliness.

5. Legislature

The national legislature will have increased the general level of assistance afforded its committees and members through more effective employment of professional staff, improved administration, legal reference and library procedures.

6. Organization for the Public Sector

a. Organic laws for each ministry and agency will reflect the proper role of the agency, its basic structure and its relationship with other agencies.

b. Organization structure, as reflected in organic legislation, will be uniform and consistent and in accordance with principles of good organization and management.

c. Coordination with other related agencies will have been identified and clarified.

7. Executive Direction and Control

a. Policy level officials will be given adequate opportunity to perform as responsible executives through amendments and interpretations of authorities that will increase administrative flexibility.

b. Executive orientation and development will be instituted as a normal process of government.

c. Modern systems of reporting and evaluation will make it possible for executives of government to make decisions and take action on the basis of accurate and timely information.

8. Public Employee Productivity

a. Employee productivity will be increased, due in large part to effective personnel management practises, including extension of the administrative career system and to a comprehensive program of employee development and training.

9. Facilitating Services

a. The government purchasing and supply programs will operate to provide agencies with commodities of the desired level of quality, sufficiently standardized to permit easy maintenance, repair and replacement and be favorably priced.

b. Maintenance of equipment programs will ensure that government services are unhampered by equipment failure.

c. Official quarters and support facilities will be adequately maintained to provide employees and clientele with surroundings conducive to efficiency and service.

E. Obstacles

In addition to structural and operational weakness discussed earlier there are other problems that, in different ways, inhibit upgrading of public sector performance. One of these is expected to be a continuing shortage of expertise required at the policy and

technical levels in the planning, revenue and administration areas which is expected to last as long as the development process continues to accelerate. A long term program of overseas training in various aspects of development economics and in revenue administration supplemented by on the job training has helped in these areas. But the full requirements of accelerated development are expected to lead to additional complexities in the programming and exploiting of national resources, in greater complexities in the way of administrative practices, and in the need for superior performance at the executive level. All these indicate demands for personnel to staff the programs of development that will be difficult to satisfy in the near future.

Another problem arises from the character of the present revolutionary junta government. It is accelerating some development processes more rapidly than would be the case were the legislature in existence and all the usual constitutional process underway. On the other hand, leadership by the Junta, because it is not presumed to represent a permanent state of civil affairs, does present certain obstacles to the normal growth of governmental institutions and, at the same time, because of its unconstitutional origin, inhibits, to an extent, access to some professional and technical skills of value to the new programs. It can be expected that some improved services and benefits to the public will be retained after this government leaves office, but other internal improvements in administration, in fiscal performance, etc., unless solidly established, may prove less durable.

III Strategy

The long range goal of a responsive and efficient public sector in Panama is being sought through a program of assistance to the GOP aimed at: (1) increasing revenues in support of the nation's development program and improving the pattern of income distribution, (2) efficiently planning and allocating and using national resources, and (3) exploring alternatives for strengthening local government and encouraging community participation in development.

The course of action was planned to have an effect outside the immediate area of assistance and at the same time to stimulate activities in GOP with opportunities for long term continued improvement after U.S. assistance ceased. Limitations on grant financing are expected to continue, hence financial plans were drawn for a program with maximum initial impact.

Thus it was planned to introduce, for a start, improvements in related administrative and technical functions in the Ministry of Finance, DGPA and office of the Controller General. Between them, these three agencies perform or control the administrative practices common to the public sector. (They also affect the private sector through the application of taxes and duties, the purchase of goods, the payment of salaries, the programming of infrastructure and the production of economic and financial data.)

The major share of grant assistance would be directed toward the mutually reinforcing fields of national planning and revenues. A lower level of assistance would be provided the Directorate of Statistics and Census, output of which would have increasing application in the new programs. As these projects advanced, the opportunities for a more comprehensive program was to be explored.

The resulting reconnaissance survey has been carried out and GOP has applied for an AID loan to finance a program of administrative reform within the public sector. Loan type funding - as contrasted to grant funding for this project - will permit a broad attack on interlocking relationships within the spectrum of common administrative services employing a level of technical effort sufficient to assure satisfactory progress in a number of areas at the same time. The reconnaissance study has brought to the attention of the GOP the complexity and magnitude of the entire undertaking before it starts, how long it will take and the character and magnitude of the resources involved.

Up-grading the capabilities of government institutions concerned with development will be attained by the administrative reform program through: 1) providing for more effective executive control by reorganizing the agencies; 2) realigning functions and introducing modern management techniques; 3) effecting a closer working relationship between autonomous agency programs and those of the ministries; 4) improving financial management and policies by assisting in the installation of effective national budgeting, accounting, auditing and reporting systems; 5) overhauling the central procurement and supply system, installing expenditure and quality control practises; and (6) revitalizing the civil service and extending it to all government agencies.

In order to increase its capacity to play a more constructive role in government, the National Assembly will be extended a program of technical assistance in the administration of legislative reference and library services, planned to begin during 1971.

Strategy used in regard to increasing revenues and improving the pattern of income distribution is being implemented by assisting GOP in strengthening overall performances of the Directorate General of Revenues. Changes sought in bringing about increased revenue collection will be a strengthening of the organizational structure of the Directorate, an increase in its management capabilities, an improvement in employee performance in the technical areas, and a simplification of procedures, methods and techniques. Attention is focussed on the income tax as containing the largest and most immediate potential for increase. The property tax will receive increasing attention as loan-financed rural and urban cadaster studies supply data on hitherto undervalued real property. The level of customs collections will be raised through generally improved administration, part of which is expected to result from a new and rational organizational structure. The DGPA and the Ministry of Finance have studies underway seeking to develop tax policies that will improve the pattern of income distribution and be more effective instruments of development. The GOP is also being assisted in the formulation of fiscal policies and controls applicable to autonomous agencies, particularly the Social Security Agency.

In regard to implementing strategy dealing with the planning, allocation and use of national resources; a) a loan for upgrading performance in the public sector is under consideration (Administrative Reform) and b) USAID is continuing assistance to the DGPA

In devising, programming, and evaluating the nation's development programs. Principal effort is currently devoted to strengthening DGPA institutional capability for: (1) carrying on national and regional development plans; (2) determining resource requirements and fiscal policies leading to national and regional objectives; (3) assisting in the review of the capital budget; (4) coordinating planning with the local government development function of the Directorate General of Community Development. New loan financing will launch a series of regional and urban studies. The budget office of the DGPA is receiving assistance in implementing a program budget and the personnel office is being assisted in revising procedures and standards preparatory to extending the career system. Both assistance projects are GOP financed.

Strategy in regard to municipalities and local affairs is being implemented through examining alternative choices of working effectively in the local government area. This will require cooperating with USAID and host government entities having legitimate interests in the area as well as external aid programs dealing with health, community development, agriculture, nutrition, education, etc. There may be several options open with respect to financing. Discussions are now under way with the Panamanian Inter-Municipal League (APCI), the DGPA, and the newly created DG of Community Development.

As of this writing, amendments have been requested permitting more versatile use of Demonstration Community Development Loan funds. In addition, funds for municipal government participation in community development projects and funds for local projects financed wholly by municipalities will be sought from an Interior Cities loan programmed for 1971. Before then, a guiding rationale to the area is expected to be forthcoming from the regional and urban planning studies financed under Loan 525-L-008.

Another alternative strategy for financing local projects would be to seek a loan to establish a municipal development bank with the participation of both local and central governments. Before this stage is reached, however, it is essential that a solution be found to the local revenue problem. One possible solution is to eliminate the earmarking of local revenues and to divert property tax receipts from the central to the local jurisdictions. Another possible solution is a self imposed supplementary tax. In a nutshell, the concept is to create a framework that will allow the local levels of government sufficient autonomy to stimulate indigenous efforts at an optimum level.

IV Course of Action

The government administration project contribution will continue in the form of assistance to the GOP's on-going efforts to develop an effective national planning process, to install a program of administrative reform to strengthen fiscal performance and to improve the production of statistical data.

Lateral support for this project will be obtained through cooperative action on common problems shared with activities in Community and Urban Development, Human Resources and Rural Development.

It is anticipated that planning assistance will be grant-funded through FY 1970 and PASA financed activities in tax and customs will be grant-funded until the loan gets underway in FY 1970. Grant funding will thereafter be directed to participant training, loan monitoring, local government, legislature etc.

In FY 1970 conversion to public administration loan financing will be made and in FY 1971 additional loan fund sources will be opened up by the Interior Cities Loan. A detailed implementation plan (PERT) for the Development Administration Loan is being prepared.

Planning assistance will be continued through FY 1970 to provide general and specialized technical assistance with one full-time and several short term economists, the latter advising in such areas as regional, agricultural, and industrial development planning. The DGPA has upgraded its staff into an effective technical organization and by the end of FY 1970 it should have an organization competent to function independently, with sound economic and social development plans, with a five-year investment budget, and be competent to recommend fiscal policies required to meet long range planning and short-term budget needs.

It is expected that by mid FY 1970, the Tax and Customs operation will be shifted to a loan financed basis. By the end of FY 1972, the system of tax administration should be capable of management directly by the GOP with only short term assistance being required, as in the case of a property tax revision.

By FY 1971 small pilot projects will have been started in the local government area and by the end of FY 1971 the Interior Cities Loan should be implemented and the first drawdown made.

By FY 1971 national census and statistics operations should be generally upgraded and coordinated arrangements completed with the DGPA for

a single staff approach to critical data analysis.

By 1972 the legislative reference and library project should be well advanced.

By the end of FY 1972 the Customs Service should be reorganized and be operating effectively.

By the end of FY 1973 the loan-financed administrative reform program of the development ministries and agencies should be well on the way to completion.

Detailed contributions by the GOP and AID with a step by step implementation plan will be set forth in the Project Implementation Paper (PIP) for this project. The PIP will also include bench-mark and intermediate objectives to assist in project evaluation.

V Evaluation

Annual reviews to be undertaken in the course of the preparation of the Project Appraisal Report (PAR) for this project will measure both progress toward achievement of objectives in each subsection as well as the continuing validity of the objectives. Two PAR's, one for tax administration and one for customs have already been completed. For information not given here, they may be referred to.

The Development Administration Loan has not yet entered the negotiating stage that precedes execution of the Agreement. Nevertheless, a tentative PERT has been prepared for this undertaking. It will be very substantially expanded and used by both DGPA and the Mission as a planning and status recording device. USAID Public Administration Advisors will work closely with the loan administrator and the presidential commission. They will monitor administration of the loan, appraise progress towards the goals of administrative reform and evaluate its overall effect within Panama's public sector.

The DGPA's planning project has been carried out under the terms of a contract which, with its amendments, sets forth with adequate clarity the professional assistance input that was requested. With this document as a base, contractor performance will be analyzed before June 1970, when the work is scheduled to end. It is believed preferable to take this action while contract staff is on site. An adequate file of progress reports and related material will suffice as documentary evidence to support this part of the evaluation.

A second area of consideration in the same evaluation will be the training program in the planning department. The inservice activities for both DGPA and other agency personnel have used various sources of assistance, the contractor, other international agencies and University of Panama faculty. The participant training program, started in 1966 has maintained, on the average, two trainees in U.S. or foreign universities. The goal in each case is advanced academic training in development economics.

In both these cases, review will be made of the stated purposes of the training, the degree to which it was carried out and the observable results of each kind of training. The retention and employment (or gainful transfer to other agencies) of returned participants will be evaluated. Inservice training will be analyzed in terms of number and status of recipients, caliber of instructors, relevance of subject matter, etc. The basic question directed at the training programs will be: to what extent has the planning department moved toward the necessary goal of absorbing the professional disciplines of economic planning, adapting and systematizing their application to the Panamanian environment and projecting them out into the operating agencies?

A third area of the evaluation: changes and improvements that have taken place in the planning department as a whole. What significant changes have occurred as a consequence of external assistance? Factors to be evaluated: increase in size and capability of staff; comparative salary scales in use; academic levels attained by professional staff. One measure of growing competency of the office will be an appraisal of the regular and special reports that have been produced by the staff. The full effect of these documents will not be easy to determine, but where they have triggered legislation or become the basis for action in the public or private sector the fact can be established. Comprehensive papers dealing with issues presented to CIAP or other international agencies, or sectoral papers and finally the national plan will be evaluated by outside professional experts in the field.

There are other areas in DGPA that will be evaluated at the same time, such as improvements that have taken place in the sister departments of O & M, budget and personnel which can be attributed to the upgrading process in planning and larger questions dealing with the expanded role of the Director General as a consequence of the new forces at his command. No attempt is being made to raise all of the issues that the evaluation process will explore, but rather to suggest that this will be a fruitful exercise in the case of the planning sub-project.

Tax customs have had PAR's already prepared and these will be kept current on the regular schedule. The smaller projects in statistics, tax policy and administrative studies will not present any problems so far as evaluation is concerned. In all cases, objective professional assistance will be used to appraise the calibre of U.S. input and the observable response from GDP.

AIRGRAM

DEPARTMENT OF STATE

UNCLASSIFIED
CLASSIFICATION

For each address check one ACTION | INFO

TO - PANAMA CITY AID TO 22

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FROM - WASHINGTON

SUBJECT - PROP - Government Administration & Fiscal Reform, #525-11-720-048

REFERENCE - TOAID A-405

In accordance with M.O. 1025.1 regarding PROP submission and A.I.D./W review, the following guidance is provided:

1. The Government Administration and Fiscal Reform Project, #525-11-720-048, has been reviewed and approved by A.I.D./W subject to the following conditions and recommendations:
 - a. Grant funding for participants and contract personnel beyond FY 70 appears high even though substantial loan funds are budgeted for these purposes. As a condition of approval, therefore, when the Development Administration and Interior Cities loans are signed, the Mission should submit further explanation of the high level of grant funding for these categories if the funds are in fact still required at that time.
 - b. The loan program discussed in the PROP, while not directly related to the PROP approval process, requires further explanation. It appears, for example, that the \$5.0 million Interior Cities loan projected for FY 71 might overlap significantly with the presently authorized loan for Development Administration or with the \$5.0 million loan proposed for Community Development in FY 72. We question Panama's absorptive capacity in these three interrelated activities in such a relatively brief time frame and believe we must guard against development of a significant pipeline problem, as happened with previous Com. Dev. loan and grant projects.

Attachments: Project Authorization No. 525-70-02 RICHARDSON

PAGE	PAGES
1	OF 1

DRAFTED BY JRoyer:jg	OFFICE LA/PAN	PHONE NO. 23030	DATE 2/19/70	APPROVED BY: AA/LA:HKleine
AID AND OTHER CLEARANCES LA/PAN:LLauffer LA/DR:WFeldman (draft) LA/OPNS:Alughes (draft)	LA/DP:JHeller (draft) LA/CC (info)	LA/KGT (info) LA/SCD (info) PFC/PTIS/ARC (info)	C/DUD (info)	

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CLASSIFICATION

PROJECT AUTHORIZATION

A.I.D.
Reference Center
Room 1656 NS M.O. 1025.3

1. Project Number 525-11-720-048	3. Country Panama	4. Authorization Number 525-70-02
2. Project Title Government Administration and Fiscal Reform		5. Authorization Date
		6. PROP Dated November 5, 1969

7. Life of Project
 a. Number of Years of Funding 15 : Starting FY 19 62 :
 b. Estimated Duration of Physical Work After Last Year of Funding: 0

8. Funding by Fiscal Year	Dollars (000)		P.L. 480 * CCC + Freight	Local Currency		Col 1991
	Grant	Loan		U.S.	Local	
Prior Through				Grant	Loan	
Actual FY 69	2,578	3,700				12,932
Operational FY 70	407					725
Budget FY 71	255	5,000				1,225
FY 72	274					1,070
FY 73	250					250
FY 74	230					200
All Subsequent FYs	352					230
TOTAL	4,346	8,700				16,632

9. Describe Funding Conditions or Arrangements*

10. Conditions of approval of project and/or recommendations for implementation.

See attachment.

(Use continuation sheet if necessary)

11. Approved in substance for the life of the project as described in PROP, subject to the availability of funds. Detailed planning with cooperating country and drafting of implementation documents is authorized.

This authorization is contingent upon timely completion of the self-help and other conditions listed in the PROP or attached thereto.

This authorization will be reviewed at such time as the objectives, scope and nature of the project and/or the magnitudes and scheduling of any inputs or outputs deviate so significantly from the project as originally authorized as to warrant submission of a new or revised PROP.

A.I.D. Approval:

[Signature]
 Signature
 Acting Deputy U.S. Coordinator
 Alliance for Progress

Title

Date

20 FEB 1970

Clearances:

LA/PAN:LLauffer *[Signature]*
 LA/DR:WFeldman *[Signature]*
 LA/DP:JHeller *[Signature]*
 LA/OPNS:AHughes *[Signature]*

Date

2/16/70
 2/14/70
 2/17/70
 2/17/70

* Use Block 9 to record kinds and quantities of P.L. 480 commodities.

PROJECT AUTHORIZATION (Cont.)

Project 525-11-720-048

Block 10. Conditions of approval of project.

The project has been substantially approved subject to the following condition:

1. US A.I.D./Panama will forward to A.I.D./W an explanation of the grant money, budgeted in the PROP, for contract personnel and participants which appears excessive if funds are to be available for the same or similar purposes from the proposed Development Administration and Interior Cities loans. This is to be done prior to signing of the loans.