

PDAB-141-E1

5250048-31

AID 1020-25 (7-60)
PROJECT APPRAISAL REPORT (PAR)
 (U-446) See M.O. 1026.1
 SECURITY CLASSIFICATION: **UNCLASSIFIED**
 001 PROJECT NUMBER: **525-11-720-048**
 002 PAR: MO. DAY YR. 003 U.S. OBLIGATION SPAN: FY 66 Thru FY 72
 AS OF: 1 2 3 1 6 8
 004 PROJECT TITLE: **Government Administration and Fiscal Reform (Customs)**
 005 COOPERATING COUNTRY - REGION - AID/W OFFICE: **Panama**

Reference Center
 1456 NS
 28p.

006 FUNDING TABLE

AID DOLLAR FINANCING-OBLIGATIONS (\$000)	TOTAL	CON-TRACT (NON-ADD)	PERSONNEL SERVICES			PARTICIPANTS		COMMODITIES		OTHER COSTS	
			AID	PASA	CON-TRACT	DIR. PASA	CON-TRACT	DIR. PASA	CON-TRACT	DIR. PASA	CON-TRACT
CUMULATIVE NET THRU ACTUAL YEAR (FY 1968)				85.5			1.5				
PROPOSED OPERATIONAL YEAR (FY 1969)				19.6			2.6				

CCC VALUE OF P.L. 400 COMMODITIES (\$000) → Thru Actual Year : none Operational Year Program :

007 IMPLEMENTING AGENCY TABLE

If contractors or participating agencies are employed, enter the name and contract or PASA number of each in appropriate spaces below; in the case of voluntary agencies, enter name and registration number from M.O. 1551.1, Attachment A. Enter the appropriate descriptive code in columns b and c, using the coding guide provided below.

TYPE CODE b	TYPE CODE c	a. IMPLEMENTING AGENCY	TYPE CODE		d. CONTRACT/PASA/VOLAG NO.	e. LEAVE BLANK FOR AID/W USE
			b.	c.		
1. U.S. CONTRACTOR 2. LOCAL CONTRACTOR 3. THIRD COUNTRY CONTRACTOR 4. PARTICIPATING AGENCY 5. VOLUNTARY AGENCY 6. OTHER:	0. PARTICIPATING AGENCY 1. UNIVERSITY 2. NON-PROFIT INSTITUTION 3. ARCHITECTURAL & ENGINEERING 4. CONSTRUCTION 5. OTHER COMMERCIAL 6. INDIVIDUAL 7. OTHER:	1. Bureau of Customs	4	0	LA(TC) 11-66	
		2.				
		3.				

PART I - PROJECT IMPACT

I-A. GENERAL NARRATIVE STATEMENT ON PROJECT EFFECTIVENESS, SIGNIFICANCE & EFFICIENCY.

This summary narrative should begin with a brief (one or two paragraph) statement of the principal events in the history of the project since the last PAR. Following this should come a concise narrative statement which evaluates the overall efficiency, effectiveness and significance of the project from the standpoint of:

- (1) overall performance and effectiveness of project implementation in achieving stated project targets;
- (2) the contribution to achievement of sector and goal plans;
- (3) anticipated results compared to costs, i.e., efficiency in resource utilization;
- (4) the continued relevance, importance and significance of the project to country development and/or the furtherance of U.S. objectives.

Include in the above outline, as necessary and appropriate, significant remedial actions undertaken or planned. The narrative can best be done after the rest of PART I is completed. It should integrate the partial analyses in I-B and I-C into an overall balanced appraisal of the project's impact. The narrative can refer to other sections of the PAR which are pertinent. If the evaluation in the previous PAR has not significantly changed, or if the project is too new to have achieved significant results, this Part should so state.

008 NARRATIVE FOR PART I-A (Continue on form AID 1020-25 I as necessary):

MISSION DIRECTOR APPROVAL → SIGNATURE DATE February 27, 1969

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PAR CONTINUATION SHEET

This sheet is to be used for any Narrative Sections for which sufficient space has not been provided on the form. Identify each narrative by its Part and Section Designation.

The customs function of any nation is to control the importation and exportation of merchandise and articles which cross the national borders. There are five principal objectives of customs control of importations and exportations to:

- (a) Collect revenue from customs duties;
- (b) protect and promote domestic industry and commerce;
- (c) protect the public health, safety, and morals;
- (d) promote foreign policy;
- (e) promote economic policy, conserve foreign exchange, and improve the national balance of payments.

The customs function in the Isthmus and Republic of Panama has historically been of greatest importance to the nation because of its geographic position astride principal east-west trade routes. The economic viability of the Republic has depended upon the control and use of the flow of merchandise into, out of, and through the Isthmus.

The construction of an inter-oceanic canal, the establishment of one of the largest duty-free zones in the world, the construction of a major air terminal complex, and the completion of the last link in the Inter-American Highway have all represented efforts to capitalize upon the fortunate geographic position of the Republic of Panama. The favorable impact of each of these projects is dependent upon the amount of control, customs or otherwise, that the GOP can bring to bear to obtain their maximum benefits.

The instant customs project of the USAID was initiated in June 1966 with a view toward attaining the general goal of the USAID and the GOP for improving government administration and fiscal performance in order to obtain increased revenue for national development. Improved customs control and management of the flow of imported merchandise arriving, leaving, and stored in the Republic was determined to be an important base for increasing national revenues.

Since the beginning of the project, one full-time customs advisor has been assigned to the GOP under the terms of a Participant Agency Service Agreement between the USAID and the U. S. Bureau of Customs. He has been assisted from time to time, as funds have been available, by temporary duty technicians from the U. S. Bureau of Customs.

Most of these TDY technicians arrived in FY 1967, when they performed three key studies of customs activities in the GOP in the areas of (a) the centralization of customs functions in Panama City; (b) the Colon Free Zone, and (c) the overall customs organization

A viable Central Entry Office was created in Panama City in April 1968. The functions of four separate customhouses were consolidated into one convenient, centrally-located office where importers can bring all the documents to effect customs clearance of their shipments, whether they arrive by sea, air, land, or mail. Besides simplifying import procedures for importers, the Central Entry Office also improved customs control over its own operations.

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In December 1968 a reorganization of customs activities was approved within the framework of an overall reorganization of all the revenue-producing functions of the GOP. The customs reorganization followed the principal recommendations of the 1967 study that (a) all routine operational customs activities should be carried out under the supervision of a single agency, the Customs Department, and (b) the Department of Fiscal Vigilance should be restricted to investigative, intelligence, and patrol activities. Previous to the reorganization, the Department of Fiscal Vigilance was deeply involved in routine customs activities to the detriment of the performance of both Departments. The effect of the reorganization of revenue activities cannot yet be evaluated, but it does embody the recommendations made in the customs organizational study of 1967.

Success in the third area of study, the Colon Free Zone, has thus far been incomplete. A project was begun to control the inventories of private firms in the Zone on the basis of an ADP feasibility study made in cooperation with the Organization of American States (ODECA), utilizing the services of a USAID ADP Advisor on a temporary duty basis. The inventory control project is still in the beginning stages of implementation, but the present GOP has manifested a serious intention to carry it out. However, it is still too early to evaluate its success. The inventory control is only one project to bring the Free Zone under effective customs control. Other projects will be undertaken to control commercial carriers, establish a customs bonding system, and organize a documental control of shipment to and from the Zone.

Beyond the three areas presented in the FY 1967 studies, success in the customs project has been less noteworthy, although the successful implementation of the reorganization plan will have favorable implications for the future. Achievements of secondary significance are included among those listed in Part 1-8.

The original objectives of the customs project were set forth in a General Projects Plan approved by the Mission on November 1, 1966. The Plan outlined nine principal objectives which encompassed the three areas of the FY 1967 studies.

In order to improve the effectiveness and relevance of the customs project, a revised General Projects Plan was approved by the Mission in January 1968. In the revised plan, the principal objectives were redefined and consolidated. In conjunction with the Plan, a Customs Improvement Plan was presented to the GOP in order to obtain its approval and commitment to a planned program of change.

The first Project Implementation Plan for the customs project was prepared in July 1968. It was completed on rather short notice, however, and without an in-depth appraisal of the condition of the project. The January 1968 General Projects Plan was adapted to the format of the PIP, and therefore formed the basis of the PIP.

It was never possible to obtain a commitment of any kind from the GOP to carry out the principal objectives of the General Projects Plan, the PIP, or the Customs Improvement Plan, although certain specific projects, such as the Central Entry project, were selected by the GOP for special attention.

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The reasons for the lack of GOP commitment reflect the general problems of the customs project with respect to the GOP:

- 8 (1) The organization of the Customs function has been so diffused that there has been no effective point-of-contact or project-related counterpart for conceiving or carry out a planned program of change, with or without a USAID input. This point is further developed in Part III.

The Reorganization of December 1968 was designed to make one agency of the GOP, the Directorate General of Revenues, responsible for the implementation of customs improvements conceived, planned, supervised, and evaluated by the Customs Division, a staff office of the Directorate. Such an organization of the customs function is perhaps novel in this hemisphere, but it promises good possibilities for the implementation of needed changes. If the reorganization is successfully carried out, the GOP will have overcome one of its major problems in the customs area.

- (2) Since November 1967 the attention of top-level GOP officials has been diverted from programs of change to the exigencies of the national elections, the inauguration of a new regime, and the military coup d'etat of October 1968. This instability has been characterized and aggravated by frequent changes in the leadership of the organizations which, properly coordinated, carry out the customs policy of the GOP.

The solution to this problem lies with the political stability of the present military government and its orderly transfer of power to a corresponding elected government in the coming years. The achievement of political stability is beyond the scope of the customs project, although decisions taken therein may very well affect that stability.

- (3) At all levels there has been a general lack of orientation toward the concept of planning and management of customs activities. This has been expressed as apathy toward striving to attain a goal in an environment that is so sensitive to changes in political fortunes or economic conditions beyond the control of the counterpart official. There is also some evidence of a lack of interest in pursuing goals and objectives set by the preceding administration or officeholder. This attitude has further aggravated the loss of program continuity brought about by frequent changes in personnel.

This problem may not be solved within the lifetime of the customs project, since it appears to be a very common attitude that affects many agencies of the GOP. The project can make a contribution toward a solution, however, by proposing short-range plans in the customs area which are clearly susceptible of accomplishment. If such plans are accepted and actually implemented by the GOP, their success may encourage further efforts for planning and implementation in the customs area.

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- (4) The GOP has devoted a considerable amount of time and effort toward the development of internal taxes, particularly the income tax, as a source of revenue as a result of the very successful Tax Reform Act of 1964. The increased relative volume and importance of internal taxes has been matched by a corresponding decline in the relative importance of customs duties, and therefore the customs project, from a strictly revenue standpoint. Customs duties are still the second-largest revenue producer of the GOP, accounting for about 25% of the total GOP ordinary income. Of more significance, however, is the non-revenue-producing role that customs plays in the development of the economy and prosperity of the nation. This role has not been given sufficient attention or priority by the Directorate General of Revenues, which tends to measure its success in terms of quantity of revenue produced.

Factors and decisions stemming from outside the customs area are much more potent in affecting customs revenue than simple improvements in administration and enforcement. The increase in customs collections has been closely proportional to the increase in the value of imported merchandise since 1964, running from 11-1/2 to 12-1/2% of the value of importations. Changes in key or overall rates of duty, or decisions with regard to import quotas, duty exemptions, or product substitutions are not made by the Customs or Revenue organizations, but they deeply affect customs revenue collections. Improvements and innovations made as a result of the customs project may therefore be overshadowed by other factors, or may be irrelevant to the goal of increasing the revenue of the GOP, although their ultimate and overall usefulness may be beyond doubt.

Although increased GOP revenue is an important goal, the impact and utility of the customs project is also felt in the economic climate of the ROP for attracting private investment and deriving the maximum social and economic benefits therefrom, another important USAID/ROP goal. This goal should be given increased attention in the planning of the customs project during the coming years before the termination of the project.

- (5) The ROP has an adult literacy rate of about 80% and considerable opportunities for the development of human resources within the Republic and in the Canal Zone. Compared with the potential training available, customs personnel are undertrained. Lower-level personnel tend to stick to present, accepted ways of doing things, and to resist beneficial changes and innovations. Successful change has come from the top down, with an element of compulsion. Lower-level personnel have not contributed sufficiently toward improvement.

From mid-1966 to the present time, training was not sufficiently stressed in the customs area, partly a fault of the implementing agency and partly because training objectives were lacking because of the organizational confusion reigning in the Directorate-General of Revenues and in the customs organization. The Reorganization of 1968 has brought an end to organizational impasse, so that training benefits can be fully realized in the customs area. Training opportunities should be fully exploited during 1969 and 1970.

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PART I-B - PROJECT EFFECTIVENESS

009 I-B-1 - OUTPUT REPORT AND FORECAST - (See detailed instructions)

1. CODE NO. AID/W USE ONLY	2. This section is designed to record progress toward the achievement of each project output target which was scheduled in the PIP, Part II. Where progress toward a target is significantly greater or less than scheduled describe reason(s) beneath the target.	3 ACTUAL AND PLANNED OUTPUTS (ALL DATA CUMULATIVE)				6. PROJECTED TOTAL FOR PROJECT LIFE
		3 ACTUAL CUM. TO DATE	4. AS OF PRIOR JUNE 30		5. PLANNED BY NEXT JUNE 30	
			a. PLANNED	b. ACTUAL		
	<p>The following output targets are those outlined in the General Projects Plan approved by USAID/Panama on November 1, 1966, rather than those scheduled in the PIP, Part II of July 1968. (As required in Treasury Airgram No. 171)</p> <ol style="list-style-type: none"> Clarify and realign functions and relationships in the entire customs organization. <p><u>Achievement.</u> All customs operations consolidated under single technical and functional control in reorganization plan of December 11, 1968.</p> <ol style="list-style-type: none"> Improve physical and documentary control of merchandise. <p><u>Achievements.</u> (1) System for establishing import quotas established. (June 1967) (2) Inventory control system for Colon Free Zone partially implemented. (July 1968) Organize new fraud investigation and anti-smuggling activities. <p><u>Achievements.</u> (1) Audit section organized in Department of Customs. (March 1967) (2) Training course held for 18 fiscal investigators. (March 1967) (3) Department of Fiscal Vigilance reorganized to dedicate itself to investigative activity. (December 1968) Improve procedures for entry of vessels, vehicles, and aircraft. <p><u>No significant achievements.</u> Until August 1967, there was no advisory relationship between the customs advisor and the agency with responsibility for this target, the Department of Fiscal Vigilance. Since that time, there has been a formal but ineffective advisory relationship, due to the organizational difficulties outlined in the narrative of Part I-A. The reorganization of Fiscal Vigilance in December 1968 is expected to give life to a vastly improved advisory relationship.</p> </p></p>				<p>The targets set forth in the General Projects Plan are not readily quantifiable.</p>	

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PART I-B - PROJECT EFFECTIVENESS

009

I-B-1 - OUTPUT REPORT AND FORECAST - (See detailed instructions)

1. CODE NO. AID/W USE ONLY	2. This section is designed to record progress toward the achievement of each project output target which was scheduled in the PIP, Part II. Where progress toward a target is significantly greater or less than scheduled describe reason(s) beneath the target.	ACTUAL AND PLANNED OUTPUTS (ALL DATA CUMULATIVE)				
		3. ACTUAL CUM. TO DATE	4. AS OF PRIOR JUNE 30		5. PLANNED BY NEXT JUNE 30	6. PROJECTED TOTAL FOR PROJECT LIFE
			a. PLANNED	b. ACTUAL		
	<p>5. Improve inspection, examination, classification, and appraisal of merchandise.</p> <p><u>Achievements.</u> Central entry office established in Panama City for improved entry, classification, and appraisal of merchandise. (April 1968)</p> <p>6. Devise and put into effect system employing automatic data processing for customs transactions.</p> <p><u>Achievements.</u> (1) Customs section established in ADP Department of Directorate General of Revenues. (June 1968) (2) Partial implementation of ADP control of inventories in the Colon Free Zone. (July 1968)</p> <p>Progress toward this target has been inhibited by (1) a lack of orientation toward the utility and possibilities of the use of ADP in the Customs area, and (2) a resistance to change and innovation that ADP implies.</p> <p>7. Upgrade customs facilities.</p> <p><u>Achievements.</u> (1) Approximately \$6,000 worth of U. S. Government excess property was transferred to GOP for customs use from warehouses in the Canal Zone. (2) Additional warehouse space obtained in Panama City for handling air freight. (3) Additional warehouse space obtained for motor freight at David. (4) Developed plans for construction of new customhouse at Paso Canoas border crossing to Costa Rica on Interamerican Highway.</p> <p>This target seems to be the most popular one to GOP counterparts, probably because results are immediately and easily observable by everyone.</p>					

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PART I-B - PROJECT EFFECTIVENESS

I-B-1 - OUTPUT REPORT AND FORECAST - (See detailed instructions)

009

1. CODE NO. AID/W USE ONLY	2. This section is designed to record progress toward the achievement of each project output target which was scheduled in the PIP, Part II. Where progress toward a target is significantly greater or less than scheduled describe reason(s) beneath the target.	ACTUAL AND PLANNED OUTPUTS (ALL DATA CUMULATIVE)				5. PLANNED BY NEXT JUNE 30	6. PROJECTED TOTAL FOR PROJECT LIFE
		3. ACTUAL CUM. TO DATE	4. AS OF PRIOR JUNE 30				
			a. PLANNED	b. ACTUAL			
	<p>8. Prepare for eventual entry of Panama into Central American Common Market.</p> <p><u>No significant achievements.</u> This objective has not created sufficient interest among GOP counterpart agencies to result in any noticeable achievements. Since interest is dormant, this objective will be suspended until circumstances bring about increased attention toward improvements in this regard.</p> <p>9. Establish system of written regulations, letters of instruction, etc.</p> <p><u>Achievements.</u> Uniform system for reporting the volume and value of customs transactions adopted. (November 1968)</p> <p>A true system of written regulations has had to await the development of the organization to the point where relations were clearly defined. The recent reorganization, if it is fully carried out, does just that. The accretion of sufficient trained personnel to the Customs Division will make the development of such regulations a reality.</p>						

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PART I-B - Continued

010

B.2 - OVERALL ACHIEVEMENT OF PROJECT TARGETS

Place an "X" within the bracket on the following seven-point scale that represents your judgment of the overall progress towards project targets:



PART I-C - PROJECT SIGNIFICANCE

011

C.1 - RELATION TO SECTOR AND PROGRAM GOALS (See detailed instructions M.O. 1026.1)

This section is designed to indicate the potential and actual impact of the project on relevant sector and program goals. List the goals in col. b and rate potential and actual project impact in cols. c and d.

a. CODE NO. (AID/W USE ONLY)	b. SCALE FOR COLUMN c: 3= Very Important; 2= Important; 1= Secondary Importance SCALE FOR COLUMN d: 3= Superior/Outstanding; 2= Adequate/Satisfactory/Good; 1= Unsatisfactory/Marginal	c. POTENTIAL IMPACT ON EACH GOAL IF PROJECT ACHIEVES TARGETS	d. ACTUAL IMPACT ON GOAL TO DATE RELATIVE TO PROGRESS EXPECTED AT THIS STAGE
	b. SECTOR AND PROGRAM GOALS (LIST ONLY THOSE ON WHICH THE PROJECT HAS A SIGNIFICANT EFFECT)		
	(1) Sector Goal - Public Administration To improve the abilities of the GOP to plan, finance and implement its socio-economic development programs	2	2
	(2) Project Goal - Customs Administration Improvement. To assist the GOP Revenue Agency to increase collections by 10 - 12% per year through improved customs administration system with improved valuation of merchandise, better control	3	3
	(3)		
	(4)		

For goals where column c. is rated 3 or 2 and column d. is rated 1, explain in the space for narrative. The narrative should also indicate the extent to which the potential impacts rated 3 or 2 in column c. are dependent on factors external to the achievement of the project targets, i.e., is there a substantial risk of the anticipated impact being forestalled by factors not involved in the achievement of project targets. If possible and relevant, it also would be useful to mention in the narrative your reading of any current indicators that longer-term purposes, beyond scheduled project targets, are likely or unlikely to be achieved. Each explanatory note must be identified by the number of the entry (col. b) to which it pertains.

012 NARRATIVE FOR PART I-C.1 (Continue on form AID 1020-25 I):

Goal 1.

Beyond the impact of the customs project on the stated sector goal, it will also affect other goals of the USAID and the GOP with respect to the improvement of the economic climate of the ROP for attracting private investment and the protection of industrial and commercial enterprises established in the ROP.

Goal 2.

"The improvement of customs administration has a definite potential impact on the stated project goal. But such a project does not exist in a void. It has impact in other areas, as noted in Goal 1. Also, various factors external to the project affect the stated project goal. The principal external factor affecting the amount of customs duties collected is the general level of importations, which in turn is dependent upon the general economic health of the economy. Other factors are decisions made by the GOP with regard to the establishment of import quotas and the exoneration of import duties to industries with important developmental implications. During any given year, the impact of improved customs administration on the stated project goal may be overshadowed by these external factors."

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PART I-C - Continued

C.2 - GENERAL QUESTIONS

These questions concern developments since the prior PAR. For each question place "Y" for Yes, "N" for No, or "NA" for Not Applicable in the right hand column. For each question where "Y" is entered, explain briefly in the space below the table.

MARK
IN
THIS
COL.

013	Have there been any significant, unusual or unanticipated results not covered so far in this PAR?	No
014	Have means, conditions or activities other than project measures had a substantial effect on project output or accomplishments?	Yes
015	Have any problems arisen as the result of advice or action or major contributions to the project by another donor?	No
016	If the answer to 014 or 015 is yes, or for any other reason, is the project now less necessary, unnecessary or subject to modification or earlier termination?	No
017	Have any important lessons, positive or negative, emerged which might have broad applicability?	Yes
018	Has this project revealed any requirement for research or new technical aids on which AID/W should take the initiative?	No
019	Do any aspects of the project lend themselves to publicity in newspapers, magazines, television or films in the United States?	No
020	Has there been a lack of effective cooperating country media coverage? (Make sure AID/W has copies of existing coverage.)	No

021 NARRATIVE FOR PART I-C.2 Identify each explanatory note by the number of the entry to which it pertains. (Continue on form AID 1020-25 I as necessary):

014 - As noted in the narrative of Part I-A, the general level of importations and decisions made with regard to import quotas and duty exonerations have had a substantial effect on the project accomplishments.

017 - In the first paragraph of Narrative Part I-A are listed five principal objectives of customs control. The relative importance of each of the objectives varies according to the particular historical, political, and developmental circumstances in which the country finds itself. The ROP, in common with many developing countries, has placed emphasis of the revenue-producing objective of customs control because most taxable wealth originated outside the country. Customs control has been an effective means of tapping this wealth as it entered the country. The ROP has now reached the point where its internal taxable wealth (i.e., the possession, income, transfer, production and consumption of wealth) is sufficiently large to form the base for more than 75% of the GOP's ordinary income.

On the other hand, the generation of internal wealth has made customs control increasingly relevant to other objectives. There is now a domestic industry and commerce to protect and promote. And there is a sufficient flow of money and merchandise into and out of the Isthmus to warrant increased attention to the customs controls that would bring the maximum benefits of this flow to the government and people of the ROP.

At this point in the economic development of the ROP, the promotion of the national economic policy and the protection of domestic commerce are equally important as objectives of customs control as the production of revenue to operate the GOP. The multiple-objective nature of customs control should therefore be emphasized in the implementation of the customs project.

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PART II - IMPLEMENTATION REPORT

II-A - STATUS OF SCHEDULE

022 A-1 - INDIVIDUAL ACTIONS (See detailed instructions M.O. 1026.1). This is a listing of major actions or steps which were scheduled for physical start or continuing implementation in the reporting period as reflected in the Project Implementation Plan, Part I.

PIP ITEM NO.	MAJOR ACTIONS OR STEPS; CAUSES AND RESULTS OF DELAYS; REMEDIAL STEPS	(b) STATUS - PLACE AN "X" IN, ONE COLUMN		
		(1) BEHIND SCHEDULE	(2) ON SCHEDULE	(3) AHEAD OF SCHEDULE
1.	Clarify and realign functions and relationships in the entire customs organization GOP did not take substantive legislative action for reorganization until December 1968.	X		
2.	Improve physical and documentary control of merchandise Activity is not properly a customs function and should be transferred under the new legislation	X		
3.	Organize new fraud investigation and anti-smuggling activities		X	
4.	Improve procedures for entry of vessels, vehicles, and aircraft See Remedial Action Point 2.	X		
5.	Improve inspection, examination, classification, and appraisement of merchandise		X	
6.	Devise and put into effect system employing automatic data processing for customs transactions Function of Customs Division must be clarified and realigned under new legislation	X		
7.	Upgrade customs facilities		X	
8.	Prepare for eventual entry of Panama into Central American Common Market lack of interest by GOP in integration. No immediate action to be taken.	X		
9.	Establish system of written regulations, letters of instructions, and procedural manuals. System must await the completion of the reorganization of customs under the new legislation passed	X		

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PART II - Continued

023 II-A.2 - OVERALL TIMELINESS

In general, project implementation is (place an "X" in one block):

BLOCK (c): If marked, place an "X" in any of the blocks one thru eight that apply. This is limited to key aspects of implementation, e.g., timely delivery of commodities, return of participants to assume their project responsibilities, cooperating country funding, arrival of technicians.

(a) On schedule	
(b) Ahead of schedule	
(c) Behind schedule	X
(1) AID/W Program Approval	
(2) Implementing Agency (Contractor/Participating Agency/Voluntary Agency)	
(3) Technicians	
(4) Participants	X
(5) Commodities (non-FFF)	
(6) Cooperating Country	
(7) Commodities (FFF)	
(8) Other (specify):	

II-B - RESOURCE INPUTS

This section appraises the effectiveness of U.S. resource inputs. There follow illustrative lists of factors, grouped under Implementing Agency, Participant Training and Commodities, that might influence the effectiveness of each of these types of project resources. In the blocks after only those factors which significantly affect project accomplishments, write the letter P if effect is positive or satisfactory, or the letter N if effect is negative or less than satisfactory.

I. FACTORS-IMPLEMENTING AGENCY (Contract/Participating Agency/Voluntary Agency)

024 IF NO IMPLEMENTING AGENCY IN THIS PROJECT PLACE AN "X" IN THIS BLOCK:		032 Quality, comprehensiveness and candor of required reports	F
025 Adequacy of technical knowledge	P	033 Promptness of required reports	P
026 Understanding of project purposes	P	034 Adherence to work schedule	P
027 Project planning and management	N	035 Working relations with Americans	P
028 Ability to adapt technical knowledge to local situation	P	036 Working relations with cooperating country nationals	P
029 Effective use of participant training element	P	037 Adaptation to local working and living environment	P
030 Ability to train and utilize local staff	P	038 Home office backstopping and substantive interest	P
031 Ability to meet AID administrative and other requirements	P	039 Timely recruiting of qualified technicians	P
		040 Other (describe):	

2. FACTORS-PARTICIPANT TRAINING

041 IF NO PARTICIPANT ELEMENT IN PROJECT PLACE AN "X" IN THIS BLOCK:		TRAINING UTILIZATION AND FOLLOW UP	
PRE-PROGRAM		052 Appropriateness of original selection	
042 English language ability		053 Relevance of training for present project purposes	
043 Availability of host country funding		054 Appropriateness of post-training placement	
044 Host country operational considerations (e.g., selection procedures)		055 Utility of training regardless of changes in project	
045 Technical/professional qualifications		056 Ability to get meritorious ideas accepted by supervisors	
046 Quality of technical orientation		057 Adequacy of performance	
047 Quality of general orientation		058 Continuance on project	
048 Participants' collaboration in planning content of program		059 Availability of necessary facilities and equipment	
049 Collaboration by participants' supervisors in planning training		060 Mission or contractor follow-up activity	
050 Participants' availability for training		061 Other (describe):	
051 Other (describe):	N		

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PART II-B - Continued

3. FACTORS-COMMODITIES

PLACE AN "X" IN APPROPRIATE BLOCK:	062 FFF	063 NON-FFF	X	064 NO COMMODITY ELEMENT		
065 Timeliness of AID/W program approval (i.e., PIO/C, Transfer Authorization).						072 Control measures against damage and deterioration in shipment.
066 Quality of commodities, adherence to specifications, marking.						073 Control measures against deterioration in storage.
067 Timeliness in procurement or reconditioning.			N			074 Readiness and availability of facilities. P
068 Timeliness of shipment to port of entry.						075 Appropriateness of use of commodities.
069 Adequacy of port and inland storage facilities.						076 Maintenance and spares support. F
070 Timeliness of shipment from port to site.						077 Adequacy of property records, accounting and controls. Time involved in paperwork compared with benefits derived therefrom.
071 Control measures against loss and theft.						078 Other (Describe):

Indicate in a concise narrative statement (under the heading a. Overall Implementation Performance, below) your summary appraisal of the status of project implementation, covering both significant achievements and problem areas. This should include any comments about the adequacy of provision of direct hire technicians as well as an overall appraisal of the comments provided under the three headings (b, c & d) which follow. For projects which include a dollar input for generation of local currency to meet local cost requirements, indicate the status of that input (see Detailed Instructions).

Discuss separately (under separate headings b, c & d) the status of Implementing Agency Actions, Participants and Commodities. Where above listed factors are causing significant problems (marked N), describe briefly in the appropriate narrative section: (1) the cause and source of the problem, (2) the consequences of not correcting it, and (3) what corrective action has been taken, called for, or planned by the Mission. Identify each factor discussed by its number.

079 NARRATIVE FOR PART II-B: (After narrative section a. Overall Implementation Performance, below, follow, on form AID 1020-25) as needed, with the following narrative section headings: b. Implementing Agency, c. Participants, d. Commodities. List all narrative section headings in order. For any headings which are not applicable, mark them as such and follow immediately below with the next narrative section heading.)

a. Overall Implementation Performance.

Significant achievements have been made in this sub-project in carrying out recommended changes in the areas of reorganization, centralization of entry documentation, and the Colon Free Zone, in spite of the factors to be discussed in Part III. The problem areas of GOP Customs were identified and studied, and recommendations made in FY 1957. Said recommendations were duly carried out in large part in FY 1958 and 1959. The fact that these projects were methodically thought out and implemented indicates a satisfactory overall implementation performance during the period of this report.

The principal problem area regarding implementation performance is reflected to some extent in all three areas described hereafter, but principally in the area of "implementing agency". The problem is one of reconciling the amount of time and effort exerted toward planning and implementing projects with that needed to coordinate projects and report activities to the USAID. Certainly, this problem affects one advisor working alone on a project, spending an estimated 30-40% of his time in coordinating his activities with the Mission.

There is no doubt that such coordination has been desirable and necessary since the advisor has been working within the matrix of Mission goals and objectives. The advisor as a project manager acquired a comprehensive view of the role of the project in the context of national goals of the GOP.

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At the same time, a great deal of close attention had to be paid to the details of project planning and implementation, developing and scheduling participant training, obtaining commodities, and so forth.

The roles of agent of change and coordinating associate often conflicted with each other, combined as they were in one person, with the result that one or both roles were at one time or another neglected. The comprehensive view of the coordinator was difficult to match with the detail-view of implementer.

The increment of an additional full-time customs advisor would greatly relieve this problem of dual roles. The second advisor could spend a much higher percentage of his effort in the role of implementer, leaving more time to the senior advisor for coordination with the Mission. Better results would be achieved from the customs sub-project, which would be more completely reported to the Mission.

If an additional full-time advisor cannot be obtained, TDY advisors can be used for the same purpose, concentrating all their implementing time on a single project during the period of the TDY. If no additional advisors can be recruited, the dual-role conflict will remain a problem, significant at times when both roles demand full attention and quiescence at other times. The fact that the customs sub-project has been able to achieve beneficial results since June 1966, despite inhibiting factors in the cooperating country, may indicate that the dual-role conflict is a secondary consideration. Nevertheless, the overall implementation performance has suffered because of it.

b. Implementing Agency.

- 027 - There has been a problem in establishing well-defined goals and carrying through the projects necessary to attain them. The dual-role conflict has contributed significantly to the problem, but an even larger problem has been the difficulty of getting appropriate GOP officials to contribute to the conception of goals toward which projects can be planned for implementation.
- 029 - No participant has yet been sent under the customs sub-project from Panama to the U.S. or third country for training. The first such participant is scheduled to leave in January 1969, and others are expected to follow during FY 1969. The combined factors of budget cuts and freezes at crucial times; the dual-role problem in scheduling and carrying out the details of participant selection, orientation, and departure; and personal problems of the participants have militated against the initiation of such training although numerous efforts have been made. The acquisition of experience in the details of participant training programming will improve performance in this area. So would the satisfactory resolution of the dual-role conflict.
- 039 - Three TDY technicians were recruited in FY 1967. Two of them were furnished without expense to USAID/Panama under the training PASA of the U.S. Bureau

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of Customs. The third technician completed his assignment to Panama in just one week. Two other customs technicians conducted a training course for investigators in March 1967 funded by the Foreign Tax Assistance Staff of the U.S. Internal Revenue Service. The Mission therefore received a considerable amount of TDY customs technical assistance during FY 1967 at little cost to its own budget.

Since FY 1967 other agencies have not been able to pay for the recruitment of such technicians. At the same time the Mission has not been able to take up the slack. Budget freezes and cuts have affected the recruitment of technicians more than any other sector of the customs program. An additional factor has been the difficulty of planning and scheduling their recruitment, a direct expression of the dual-role conflict.

c. Participant Training.

051 - Because of the problems mentioned in 029, there has not yet been sufficient experience with participant training to make a worthwhile evaluation..

d. Commodities.

067 - All commodities procured for use in the customs sub-project have consisted of U.S. Government excess property obtained without P10/C from military warehouses in the Canal Zone. Because of its nature, the quality varied from unserviceable to good. The GOP Ministry of Treasury and Finance established some capability for repairing damaged articles and controlling the use and disposition of commodities contributed by the USAID. But a great deal of time was needed to screen out unserviceable and useless items. ~~In order to surmount~~ this problem, GOP personnel are used to the maximum extent.

068 - Due to the nature of excess property, procurement cannot be planned in advance. When advice is received of the availability of a needed item, it must be procured immediately in competition with other USAID projects on a first-come-first-served basis.

078 - Although excess property is contributed free of charge to the USAID and the GOP its random quality and the amount of time needed to travel to the warehouse, view and screen the merchandise, place the order, and pick up the shipment detract from the benefits derived from the commodities. The maximum use of GOP personnel to perform these duties, under the monitoring of the advisor, would improve implementation performance in the commodities area.

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PART III - ROLE OF THE COOPERATING COUNTRY

The following list of illustrative items are to be considered by the evaluator. In the block after only those items which significantly affect project effectiveness, write the letter P if the effect of the item is positive or satisfactory, or the letter N if the effect of the item is negative or less than satisfactory.

SPECIFIC OPERATIONAL FACTORS:	
080 Coordination and cooperation within and between ministries.	N
081 Coordination and cooperation of LDC gov't. with public and private institutions and private enterprise.	P
082 Availability of reliable data for project planning, control and evaluation.	N
083 Competence and/or continuity in executive leadership of project.	N
084 Host country project funding.	P
085 Legislative changes relevant to project purposes.	P
086 Existence and adequacy of a project-related LDC organization.	N
087 Resolution of procedural and bureaucratic problems.	N
088 Availability of LDC physical resource inputs and/or supporting services and facilities.	P
089 Maintenance of facilities and equipment.	P
090 Resolution of tribal, class or caste problems.	P
091 Receptivity to change and innovation.	N
092 Political conditions specific to project.	N
093 Capacity to transform ideas into actions, i.e., ability to implement project plans.	N
094 Intent and/or capacity to sustain and expand the impact of the project after U.S. inputs are terminated.	N
095 Extent of LDC efforts to widen the dissemination of project benefits and services.	P
096 Utilization of trained manpower (e.g., participants, counterpart technicians) in project operations.	P
097 Enforcement of relevant procedures (e.g., newly established tax collection and audit system).	P
098 Other:	
HOST COUNTRY COUNTERPART TECHNICIAN FACTORS:	P
099 Level of technical education and/or technical experience.	
100 Planning and management skills.	N
101 Amount of technician man years available.	N
102 Continuity of staff.	P
103 Willingness to work in rural areas.	P
104 Pay and allowances.	P
105 Other:	

In the space below for narrative provide a succinct discussion and overall appraisal of the quality of country performance related to this project, particularly over the past year. Consider important trends and prospects. See Detailed Instructions for an illustrative list of considerations to be covered.

For only those items marked N include brief statements covering the nature of the problem, its impact on the achievement of project targets (i.e., its importance) and the nature and cost of corrective action taken or planned. Identify each explanatory note.

106 NARRATIVE FOR PART III (Continue on form AID 1020-25 1):

Cooperating country performance since the beginning of this project has been substandard. The achievements described in Part II-B were carried out in spite of mediocre country performance only because isolated high and middle-level personnel took a personal interest in individual projects. There has not been any systematic program for change.

The faulty performance of the GOP can be attributed to three principal intertwined and interrelated factors:

1. Faulty organization.--The reorganization plan of December 1958 is aimed at reducing or eliminating the significance of this factor, which has in the past been central to the failure of the GOP to induce needed changes.

Responsibility for the customs function was unclearly divided between three organizations of the GOP--the Directorate General of Revenues, the Department of Customs, and the Department of Fiscal Vigilance.

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The Director General of Revenues, held control of all resources--men, money, and equipment--for revenue policy implementation, which included customs policy.

The Customs Department was limited to the determination, assessment, and collection of import duties and export taxes. It did not have control over an important element of duty assessment--the imported merchandise which is the base for the taxes. On the other hand, the Customs Department had a field organization, albeit never clearly defined, over which had no real control because the Director General of Revenues had control of resources for implementation. The Custom Director's ability to improve things was limited to his ability to influence the DGR.

The Department of Fiscal Vigilance was originally conceived to be and intelligence organization of the Directorate General of Revenues. Through a misunderstanding of its principal objective, compounded by misguided leadership, the Department absorbed a vast amount of the responsibility normally assumed by the customs organization, that concerned with the flow of articles, wares, and merchandise into and out of the ROP. Illustrative of this misunderstanding is the fact that 200 of the 300 employees of Fiscal Vigilance are engaged in such merchandise control work. On the other hand, the total payroll of the Customs Department has averaged about 90. Two-thirds of the employees performing normal customs functions were not located in the Department of Customs.

The picture that emerged, therefore, was that of (1) a Directorate General Revenues with control over, but not much interest in, customs improvements, (2) an emasculated Customs Department sandwiched between the Directorate General of Revenues and the Department of Fiscal Vigilance, with little influence on policy implementation, and (3) an aggressive Department of Fiscal Vigilance which, having grown beyond its originally-conceived limits, recognized no bounds other than the resistance thrown up by other entities.

Under the circumstances, with responsibility so undefined and diffused, there has been little opportunity for the conception and nurturing of a systematic plan for change. Efforts of this type presented by outside organizations, including the USAID, have had the difficulty of determining with whom, if anyone, such efforts could be coordinated.

The Reorganization of December 1968 places the responsibility for such development and coordination squarely on the Director General of Ingressos, and makes the Custom Division responsible to him for the technical conception, supervision, and evaluation of programmed changes. Fiscal Vigilance has been clearly restricted to its original investigative and intelligence role. The success of the reorganization will provide a sound basis for further improvement of all aspects of customs endeavor, and will indicate the attitude of the GOP toward customs improvement.

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2. Lack of goals and commitment to change in the customs area.--This factor is related to faulty organization, since no one had a definite area of responsibility for setting goals and working toward their implementation.

The Director General of Ingresos, in addition, was and is the head of an organization whose success is measured by the amount of money it succeeds in collecting for the GOP. He has many choices to make regarding the areas in which he should concentrate the effort and impact of the resources at his command. Since the overall goal of the ROP and most developing countries is to develop internal resources and to reduce dependence on external resources, the importance of importations from abroad and the duties and taxes collected thereon have a long-term prognosis of decline.

The impact of an increasing base for internal taxes and a relatively decreasing base for customs collection on the DGR's goal of increased revenues is that he will tend to deemphasize customs improvements, unless there is an outside influence strong enough to promote such changes.

Such an influence has thus far been lacking inside the DGR, in the Departments of Customs and Fiscal Vigilance. Outside influence has not yet elicited a response from the DGR in terms of a planned program for change. During 1968 this staticity was due in part to the expected change in political administration and absorption in the electoral campaign.

Beyond the increased attention of the DGR in internal taxes, the concept of goal-setting and purposeful change, has failed to arouse the attention and recognition that it should have. While lack of interest in goals undoubtedly has historical roots, its present manifestation is a certain poverty of human capital--the lack of vision of better possibilities.

3. Mediocre human resources.--As long as the problem of faulty organization remained unresolved, the problem of improving the human capital in the customs area was difficult to attack. There was insufficient knowledge of the post-organizational setting to provide the training with objectives.

The USAID assisted in a training course for investigators in 1967, which was a case in point. Because of the organizational problem, most of the investigators so trained were not utilized as investigators because Fiscal Vigilance had no capacity or willingness to absorb them in that capacity. Most became, in reality, customs inspectors and some were later transferred to other organizations.

Implementing agency performance was faulty, as noted in Part II-B, in not providing participant training in those few areas in which it would have been useful since mid-1965.

Clarification expected to be produced by the reorganization should provide a sound basis for increased attention to improving human resources. Therefore, participant training and local training courses, including Canal Zone-assisted courses, should be a principal feature of the improvement plan for Calendar Years 1969 and 1970.

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- 080 - The narrative portion describes the lack of coordination within the DGR. Also, there has been a lack of outside influence on the DGR from those agencies having an interest in its customs program--the Tariff Commission, the Planning Office, the Office of Price Regulation and Control, among others--to see that non-revenue-producing aspects of GOP policy are carried out.
- 082 - Little data has been requested or developed regarding the volume and nature of customs transactions, importations, and duty collections. Most customs statistics are developed only by the Comptroller General's Office, and are not always pertinent to customs needs. This is a reflection of the incapacity or indifference to project planning on the part of the GOP in the customs area.
- 083 - The Director General of Revenues has generally been a competent executive. Other key personnel have been of mediocre or undependable quality. In the customs area, this has been indicative of the real level of GOP interest. Continuity in all positions suffered during Calendar Year 1968.
- 085 - The three-way split in the customs function militated against the adequacy of any single project-related counterpart organization in the customs area.
- 087 - This was partly a bad fruit of faulty organization. Whenever such problems have been faced and resolved, it has been mostly due to the personal intervention of the DGR.
- 091 - The attitude at the Departmental level has been that of passive indifference to change and innovation. Little initiative toward improvement has come from that level.
- 092 - Although the Director General of Revenues is nominally and legally superior to the Director of Fiscal Vigilance, all DFV's since 1964 have had an intimate informal channel of communication with persons superior in hierarchy to the DGR, for instance the Minister of Finance or the President. This has enabled Fiscal Vigilance to grow beyond its real bounds and has made it difficult to control even for its own improvement. This problem still exists since the reorganization. The manner in which this problem is treated at the highest levels of the GOP will indicate its real attitude toward the reorganization of the GOP, and therefore toward decisions necessary for economic development.
- 093 - When ideas have been generated and accepted, they have sometimes been killed or altered beyond recognition in their implementation. Success has more often been a matter of higher-level interest in a given project.

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- 094 - At this point in time, there is little doubt that the customs project would be abandoned if U.S. inputs were terminated immediately. The diffusion of the customs function and the lack of a project-related counterpart have left the USAID as the chief promoter of unified customs policy implementation in the ROP. The December 1968 reorganization is expected to make the Customs Division of the Directorate General of Revenues the focal point for customs policy implementation.
- 096 - There has not yet been any experience with participants. The GOP has in the past had an organizational incapacity to absorb trained personnel in the customs area.
- 100 - These skills have been lacking below the level of the DGR, and should be emphasized during the remainder of the project. The resources of the Employee Development Program of the Panama Canal Company may be very helpful in the orientation toward improved management.
- 101 - The Customs Department has been chronically short-staffed, even as the DFV has been overstaffed. Potentially capable supervisors have been retained in technical jobs due to the scarcity of trained and trainable technicians to replace them. The ROP is relatively rich in educational resources for basic technical skills, with an adult literacy rate of 80% and considerable sophistication in industry and commerce. But for all the reasons outlined in Part III, not enough trained technicians have been brought into the customs area.

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PART IV - PROGRAMMING IMPLICATIONS

IV-A - EFFECT ON PURPOSE AND DESIGN

Indicate in a brief narrative whether the Mission experience to date with this project and/or changing country circumstances call for some adjustment in project purposes or design, and why, and the approximate cost implications. Cover any of the following considerations or others that may be relevant. (See Detailed Instructions for additional illustrative considerations.) Relevant experience or country situations that were described earlier can simply be referenced. The spelling out of specific changes should be left to the appropriate programming documents, but a brief indication of the type of change contemplated should be given here to clarify the need for change. For example, changes might be indicated if they would:

1. better achieve program/project purposes;
2. address more critical or higher priority purposes within a goal plan;
3. produce desired results at less cost;
4. give more assurance of lasting institutional development upon U.S. withdrawal.

107 NARRATIVE FOR PART IV-A (Continue on form AID 1020-25 I):

1. Both the Mission and the GOP have recognized the importance of customs as a revenue producer, as attested by the goal statements of the Mission and the interest of the Directorate General of Revenues in requesting customs advisor assistance. The adoption of needed improvements will sustain the revenue importance of customs for many years. Increasing efficiency in the customs area will compensate for a declining base of customs duties.

Nevertheless, the customs project should be related to another national goal of the GOP--providing an improved economic climate in the ROP for domestic and private investment, thereby increasing the amount of aggregate wealth on which internal taxes can be levied.

To this end, a project should be directed toward strengthening the voice and influence of entities having an interest in the non-revenue-producing aspects of customs policy and administration. Such entities include the Presidency, the Tariff Commission, the Department of Financial Affairs, the Office of Price Regulation and Control, the Colon Free Zone, and the Planning Office. One of the aims of the project should be to develop objective methods of evaluating the success of the customs organization in carrying out overall economic policy determined by the same entities.

(continued)

IV-B - PROPOSED ACTION

108 This project should be (Place an "X" in appropriate block(s)):

- | | |
|--|---|
| 1. Continued as presently scheduled in PIP. | |
| 2. Continued with minor changes in the PIP, made at Mission level (not requiring submission of an amended PIP to AID W.). | |
| 3. Continued with significant changes in the PIP (but not sufficient to require a revised PROP). A formally revised PIP will follow. | |
| 4. Extended beyond its present schedule to (Date): Mo. ___ Day ___ Yr. ___. Explain in narrative, PROP will follow. | |
| 5. Substantively revised. PROP will follow. | X |
| 6. Evaluated in depth to determine its effectiveness, future scope, and duration. | |
| 7. Discontinued earlier than presently scheduled. Date recommended for termination: Mo. ___ Day ___ Yr. ___ | |
| 8. Canceled. Explain in narrative. | |

109 NARRATIVE FOR PART IV-B:

~~This is the first~~ Project Appraisal Report made on the customs project. Furthermore, there was no Project Implementation Plan until the hastily-prepared effort of June 1966 which embodied mostly the existing projects as enunciated in the original General Projects Plan.

Real accomplishments have been made in the customs project, but at this point in the life of the project, it is advisable that a substantially revised Project Paper and Project Implementation Plan be prepared which will:

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PART IV-A (Continued)

2. The current customs project is not prepared to deal with several major changes which will either be carried out, or whose basic planning will be completed, before the termination of the customs project in FY 1972:

Document Airport Terminal Complex.--A feasibility study will soon be made regarding the design and construction of air passenger and cargo facilities to preserve Panama's importance as a north-south and east-west hub of air commerce. The complex is expected to contain an extension of the Colon Free Zone, a fly-in industrial park, and other modern airport facilities. The customs project should take into consideration customs needs and physical requirements, changes in import procedures, increases in personnel, and other factors so that requisite changes can be made at the proper time in the development of the complex.

Revision of Panama Canal Treaty.--At this time it cannot be predicted when negotiations will be resumed for a new Panama Canal Treaty between the U.S. and the GOP. However, basic plans should be formulated, and revised as additional information becomes available, for increased participation by the GOP in various areas touched upon in the treaty drafts of 1967. The principal areas of customs interest lie in the operation of port facilities and the addition of new territory to the Colon Free Zone in the Coco Solo area.

The basic plans will be formulated within the guidelines of USAID and Embassy policy with respect to the Canal before submission to the GOP.

Inter-American Highway.--Although this project is not scheduled for completion until much later than 1972, it should be an objective of the customs project to develop viable systems for the in-bond transit of highway cargoes and the rapid customs clearance of passengers and cargo at highway border crossings. The successful development of systems at this time will make their adaptation to the Inter-American Highway system much simpler.

3. Little attention has been given to the modification of existing customs tariffs since 1957. In a recent report, Tax Policies for the Economic Development of Panama, by Dr. Milton C. Taylor of Michigan State University, a comprehensive study of the GOP tariff structure was proposed, such study to be made by an impartial international organization.

The economic effect of tariff reform is closely associated with the effects of import quotas, duty exemptions, industrial incentives and other non-tariff devices involved in economic policy. If the GOP develops and demonstrates interest in the subject of tariff reform, it is strongly recommended that the USAID promote the study recommended by Dr. Taylor, expanded to include non-tariff considerations in import policy.

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The current customs project is limited to customs administration, whereas the recommended study deals with economic and import policy. The customs project should continue to be limited to administrative aspects. However, increased attention should be directed toward providing a suitable foundation for the study in the following respects:

- (a) Identify and solve administrative problems in non-tariff areas within the existing legal framework.
- (b) Identify administrative problems created by the existing law for presentation to the USAID and the person(s) who make the import policy study.
- (c) Improve the statistical capability of the Directorate General of Revenues, the Tariff Commission, and other appropriate entities to provide accurate information regarding the implementation and administration of import policy.

PART IV-B (Continued)

1. Reflect changes in the purpose and design of the project.
2. Emphasize the development of human resources.
3. Reflect a complete plan through FY 1972.
4. Have flexibility for the hope-for increased input of the implementing agency in terms of additional advisory manpower.

Past project evaluation has been difficult because the individual projects were defined in a manner that was difficult to quantify. Doubtless not all projects can be quantified, but an increased effort will be made on the forthcoming PIP to redefine projects in a quantifiable manner for easier and more objective evaluation.

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SPECIAL CONSIDERATIONS REGARDING TREASURY PASA PAR'S

The AID airgram regarding Treasury PASA projects outlined several areas of interest to be included in the Program Evaluation by the Mission. These points have mostly been covered in the attached PAR, but within the context of the PAR. Specific replies to each of these considerations are set forth hereafter:

1. Attitude of host country officials:

- a. Higher-level officials have accepted advice explicitly and implicitly in isolated projects. Lower-level officials, those at the Departmental level and below, have generally not accepted advice until it came down as dictum from above.
- b. The functional elements of customs administration are recognized in the Customs Department and the Directorate General of Revenues. Fiscal Vigilance has not recognized the distinction between the investigative and the routine operational "permissive" type of activity in either customs or tax administration.

2. Revenue increases:

- a. Revenue has increased in real terms, as noted in the attached chart, each year since 1965, except for 1968. Inflation is tied to that of the exporting country, in the case of the ROP, mostly the U. S.
- b. Note attached Chart No. 1
- c. Number of increases in customs collections have been roughly a mathematical function of the value of imported merchandise. There have been no changes in efficiency of administration, tariff rates, general policy, or other factors of a magnitude to divert customs collections from their direct relation to importations.

3. Collection efficiency:

- a. The annual unit cost of collection has decreased. The value of importations and therefore customs collections has continued to rise, while the payroll of the Customs Department has remained the same. However, this ratio may be illusory because many customs functions are performed by the Department of Fiscal Vigilance, whose cost accounting has thus far defied analysis.
- b. Yes, to the extent indicated in (a.). The same number of employees has simply had to handle more transactions.
- c. Yes, as noted in (a.).

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4. Equitable application of revenue laws:

- a. The problem is that it has not changed in such a way as to give increased attention to the customs area.
- b. All duties must be paid before the merchandise is released to the importer. This system was in effect before the customs project was begun. There is no problem of current payment of duties.
- c. Not enough; an audit unit was created and has been active in the Customs Department. But little progress has been made in making Fiscal Vigilance a better agent of either integrity programs or law enforcement.
- d. No significant progress for the reason outlined in (c.). The GOP did not show any ability to channel Fiscal Vigilance effort into meaningful law enforcement work until the recent reorganization of December 1968.

5. Public Support:

- a. Changes in the customs area have been duly publicized when they have involved information on a need-to-know basis to the community--the opening and address of a new office, for instance. But there has been no public relations campaign to improve the public image of customs. The USIS has assisted in various projects to publicize joint "Alliance for Progress" type efforts.
- b. Compliance has not been a problem in the customs area, so that public information techniques have not been used.

014 - General level of importations has been increasing, directly affecting customs revenue.

015 - No other donors in the customs area.

018 - Emphasis is being placed on the right sources of revenue--income tax and customs--because they are the two largest revenue producers, 33% and 25% respectively, of GOP revenue. However, the emphasis on the customs program should be broadened beyond its revenue-producing role to improve its impact on the economic climate of the GOP.

020 - No.

028 - Only one member on the team. Another member needed with skills in customs inspection and/or investigative work.

035 - (i) The Mission has an adequate standard orientation schedule and a sponsor for each arriving technician. The system seems to work well.

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- (ii) Since June 1968 the customs advisor has participated in the weekly staff meeting of the Mission Director. This participation has been important in forming a comprehensive view of what has been going on in the Mission and to improve coordination of the customs advisory effort with other projects, even at the cost of a few hours of "coordination" time each week.
- 036 - Fluent in Spanish, which has been important since few ROP customs officials speak understandable English.
- 038 - (i) Training in all these areas was good, lasting a total of one year. However, due to purely fortuitous circumstances, there was an unfortunate break of eight months between the end of the training course and assignment to a Mission, which took some of the keen edge off the training.
- (ii) Yes, --the Director of Foreign Customs Assistance of the Bureau of Customs.
- (iii) The visit was useful in clarifying the job to be done by the customs advisor relative to that performed by the IRS Tax Team. I have no knowledge of the effect of his visit on (a), (b), or (c).
- (iv) Yes, at least two visits by the Director of Foreign Customs Assistance.
- (v) The visits resulted in increased effectiveness of the advisor, in clarifying points of difference between the advisor and the Mission. No project modifications resulted from the visits. Backstopping by the Bureau of Customs has always been good.

PART II-B.2

- (i) Most participant training for customs projects is technical in nature, utilizing U.S. Customs facilities in the U.S. It is doubtful that similar high-quality technical training can be found elsewhere in the Western Hemisphere.

In-country training courses of a general nature can be very well performed in the ROP. Canal Zone and military authorities assisted very able in one course, and can probably assist in other courses covering supervisory skills, office skills and, perhaps, basic investigative training.

- (ii) No. The best technical training is found in the U.S., and all general courses can be conveniently taught in the ROPOR in the Canal Zone.
- (iii) No. for the same reason as in (ii).

- 091 - As explained in the PAR, the GOP agreed to its need for customs technical assistance, but it has never committed itself to a program for action, or even stated its own goals in the customs area. Since this has been largely due to its own organizational confusion, its commitment may improve as a result of the December 1968 reorganization.

UNCLASSIFIED

SECURITY CLASSIFICATION

PAR CONTINUATION SHEET

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CHART No. 1

CUSTOMS DUTY COLLECTIONS IN ROP, 1965 - 1968

<u>Year</u>	<u>Customs Collections</u>	<u>% Increase over prev. year</u>	<u>Growth of GNP</u>
1965	B/.23,840,200	13.8%	10.1%
1966	24,937,100	4.6%	10.8%
1967	27,911,200	11.9%	8.0%
1968 ^{1/}	22,285,300	0.2% ^{2/}	--- ^{3/}

^{1/} To end of October 1968^{2/} Compared with collections at end of October 1967^{3/} No statistics available

CHART No. 2

IMPORTATIONS AND DUTY COLLECTIONS IN ROP, 1965 - 1968

<u>Year</u>	<u>Total Value of Importations</u>	<u>Customs Collections</u>	<u>Ratio Collections to Importations</u>
1965	B/.189,620,000	B/.23,840,500	12.6%
1966	214,530,200	24,937,100	11.6%
1967	229,365,800	27,911,200	11.9%
1968 ^{1/}	193,692,000	22,285,300	11.5%

^{1/} To end of October 1968

PAR CONTINUATION SHEET

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CHART NO. 3

CUSTOMS DUTY COLLECTIONS AND GOP ORDINARY INCOME, 1965 - 1968

<u>Year</u>	<u>Total Ordinary Income</u>	<u>% Customs Collections</u>	<u>% Income Tax</u>	<u>% Other Taxes</u>	<u>% Other Income</u>
1965	B/. 86,542,200	26.5%	25.7%	24.5%	23.3%
1966	100,345,200	24.9%	29.8%	22.8%	22.5%
1967	112,714,800	24.7%	30.3%	22.4%	22.6%
1968 ^{1/}	91,748,700	24.3%	29.1%	23.1%	23.5%
^{1/} To end of October 1968					

CHART No. 4

CUSTOMS DUTY COLLECTIONS ON MERCHANDISE NOT EXEMPTED FROM DUTY, 1963 - 1967

<u>Year</u>	<u>Value of Exonerated Merchandise</u>	<u>Value of Non- Exonerated Merchandise</u>	<u>Duty Collections</u>	<u>Avg. Rate of Duty</u>
1963	B/. 32,162,790	B/. 130,613,343	B/. 20,742,300	15.8%
1964	32,648,731	132,740,840	20,059,000	15.1%
1965	39,297,652	140,322,540	23,840,500	16.9%
1966	44,817,055	169,713,473	24,937,100	14.7%
1967	53,547,565	175,817,252	27,911,200	15.9%