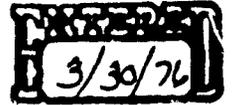


TOURIST/CONVENTION CENTERLOAN 525-L-038INTERNAL EVALUATION

TERMINAL COMMITMENT DATE:	December 31, 1976
TERMINAL DISBURSEMENT DATE:	June 30, 1977
PROJECT COST:	\$32.8 million-AID \$4.1 million; GOP \$28.8 Mil.
CUMULATIVE DISBURSEMENTS: (3-1-76)	\$ 4.9 million-AID \$0.9 million; GOP \$4.0 Mil.

A. PROJECT PURPOSE

At the time this loan agreement was signed, in November 1971, the development of tourism in Panama was considered to be one of the most fruitful avenues for Panama to strengthen its balance of payments and to increase its income and employment levels. Developments since then have intensified Panama's need to develop new sources of foreign earnings. On the import side, the cost of essential imports was basically increased by the massive boost in international crude petroleum prices late in 1973. Also, opportunities for easing the pressure on rising imports through import substitution have now been largely exploited. On the export side, there is little further growth potential for Panama's traditional exports principally bananas and sugar. Hence, the Government of Panama's (GOP) newly emerging development strategy for the 1975-85 period formally increases emphasis on the development of Panama's tourism and other service industries as one of the principal bases for its future growth and a source of balance of payments strength.

Because of these developments, the purpose which the project was designed to serve has even greater validity now than it did originally. The tourism/convention center project continues to be a critical element

in the early stages of Panama's drive to develop its tourism potential. The project is seen by the GOP, the Mission and BID as a focal point for the interchange of commercial, industrial and cultural programs, the central piece of an integrated tourism complex which includes BID financed development in San Blas and Casco Viejo. It is also expected to promote the expansion and improvement of existing tourism facilities and attractions.

B. PROJECT DESCRIPTION

The project covers a Tourism/Convention Center, plus related technical assistance, and a revolving fund for encouraging and promoting small private tourism enterprises. The total cost is now estimated at about \$33 million -- \$4.1 million financed by an AID loan and the balance from GOP resources. The development of the center itself entails the planning, designing, construction, and operation of a multi-purpose building to provide facilities related to both the promotion and support of tourism, conventions, and commercial trade shows in Panama.

The first or main floor will have a large auditorium or exhibit hall, of about 3,200 square meters, plus a 3,000 seat split level theatre. In addition, there will be a tourist service area to provide travel information, booking, passport and other services, and a restaurant with adjoining plaza. The second floor is to contain approximately 6,000 square meters of vestibules and halls, office space, meeting rooms, storage space and convention related operational areas -- along the sides of the high-ceiling auditorium. Also, an outdoor parking lot is planned for 600 cars,

along with an adjacent building to house the air conditioning and emergency power plants, maintenance shops, storage, and employees' lockers and dressing rooms.

The loan calls for the borrower, The Panamanian Tourism Institute (IPAT) (GOP guaranteed), to have prepared a plan for the staffing and training of the sales force by September 1975, with their employment and necessary training accomplished by September 30, 1976. Loan funds were to be utilized for the training of management and technical personnel, and to the extent possible, to address additional across-the-board training requirements of the tourism industry -- both public and private.

A revolving fund is to be established in the National Bank for re-lending for small private sector tourism projects.

C. DESIGN CHANGES

The tourism/convention center was originally to be constructed on a one hectare lot near the Panama Hotel at an estimated cost of \$6.1 million - \$4.1 million A.I.D. loan and a \$2.0 million GOP contribution. Subsequent study of the project in 1972 by loan funded tourism/convention experts indicated that the original site and structure were not adequate to effectively achieve the project purpose or contribute significantly to Panama's overall objective for tourism development. In August 1973, IPAT formally proposed a new water front site and basic design changes enlarging the Center. A.I.D. loan disbursements were suspended pending a detailed review and analysis of the revised project. AID approved the changes subject to the GOP's obtaining title to the new site. The AID

loan contribution was to remain unchanged at \$4.1 million although total estimated project costs had risen to \$14.5 million. It was also agreed that the borrower would pay all continuing architectural and engineering (A & E) contract costs until the revised conditions precedent for the new site and design were satisfied, with provision for subsequent reimbursement of eligible expenditures. The revision to Annex I of the loan agreement incorporating the project revision was signed in May 1975.

Following is a cost summary of the revised project:

	<u>Estimate as Set Forth in Revised Annex I</u>			<u>Final A/E Estimate (10/75)</u>		
	<u>GOP</u>	<u>AID</u>	<u>TOTAL</u>	<u>GOP</u>	<u>AID</u>	<u>TOTAL</u>
Land	2,900	--	2,900	2,900	--	2,900
Construction	4,405	2,200	6,605	19,200	2,200	21,400
Furnishing & Equipment	2,238	575	2,813	2,238	575	2,813
A & E Services	--	710	710	364	710	1,074
Administration	152	--	152	152	--	152
Contingencies	615	--	615	615	--	615
Training & Technical Asst.	20	615	635	20	615	635
Development Rev. Fund	<u>100</u>	<u>--</u>	<u>100</u>	<u>100</u>	<u>--</u>	<u>100</u>
	10,430	4,100	14,530	25,589	4,100	29,689

Subsequent to the signing of Annex I, IPAT and the consulting engineers further modified the design of the center. The design changes involved primarily additions and improvements to the theatre, making it one of the

most modern, sophisticated installations of its type anywhere, and additional parking area involving construction of a seawall and a fill of roughly four hectares. There were various other smaller improvements and greater than anticipated inflation of labor and material costs which added to the overall cost increase of the project.

D. PROGRESS TO DATE

During the final design and drawings stage, project implementation was broken down into phases to help avoid certain types of delays which could further set back the overall project timetable. Phase I consists of grading, construction of foundations, seismic beams, basement area, and sewerage and runoff drainages. Phase II consists of the construction of the rest of the building and installation of all equipment. The seawall, fill, and related additional parking area was designated as Phase III.

Land title was acquired in April, ¹⁹⁷⁵. The delays in securing title were due in large part to the GOP's reluctance to expropriate private property. Bids were opened February 14, 1975 for Phase I construction and a contract in the amount of \$1,220,800 awarded to Construction Arias, S. A. Construction proceeded while plans for Phase II and Phase III were being finalized. Phase I was about 95% completed as of March 1, 1976, at which time a total of \$4.9 millions had been expended on the project. GOP expenditures were \$4.0 millions for land and Phase I construction and \$0.9 millions of the loan had been disbursed -- \$0.5 million for engineering and \$0.4 million for construction.

A primary concern to the USAID during the latter months of 1975 as overall plans were being finalized involved a need for GOP assurance of

its full commitment to implementation of the project as planned, in terms of sufficient budget and adequate training for the Center staff. Such assurance was provided in a letter from the Minister of Planning to the Acting Director of USAID. The Minister reaffirmed that the convention center continued to have high priority for the GOP and that the GOP intended to allocate the additional resources necessary to cover the increased costs of the project so that construction could accelerate during 1976. At the same time, due to budget pressure from these increased costs, the Minister requested more rapid loan disbursements and a transfer of loan funds from training to construction. A subsequent transfer of \$615,000 loan funds from TA and training to construction was approved (State 082, 1-2-76), as requested by the Mission on the grounds that the GOP has the capability as well as the budget for providing the training. Also, the loan financed TA was for training the convention center staff, which under the existing arrangements, would have had to be completed too early to be efficient -- a year or so before the center would become operational. Although approved by AID/W, these funding changes have not yet been made. The Mission is awaiting the finalization of contractual arrangements for construction before it takes any further steps.

E. CURRENT ISSUES

A recent, currently unresolved, issue is an indicated further escalation in project costs as reflected in bid offers opened January 14, 1976, covering the cost of Phase II and Phase III construction. Based on these bids, the total cost of the project would now come to \$32.8 million, as follows:

	<u>GOP</u>	<u>USAID</u>	<u>TOTAL</u>
Land	2,900	-	2,900
Construction - (Phase <u>I</u> , <u>II</u> and <u>III</u>)	21,798	2,741	24,539
Furnishing & Equipment	2,238	575	2,813
A & E Services	364	710	1,074
Administration	152	-	152
Contingencies	615	-	615
Training & Technical Assistance	561	74	635
Development Rev. Fund	<u>100</u>	<u>-</u>	<u>100</u>
Total	28,728	4,100	32,828

Following review and study of the bids, IPAT and the Ministry of Planning (MPPE) declared them to be null and void since all exceeded GOP estimates by more than 10%. In an effort to reduce present costs, the GOP has decided to postpone Phase III. On February 25, 1976 advertisements were again made to previously qualified bidders for a second round of bids to be received on March 11, 1976 for Phase II construction only. The possibility of further changes in project design or schedule could hinge on the outcome of the second round of Phase II bids.

F. OUTLOOK

This project has been plagued throughout by a series of justifiable delays and design changes which seriously set back its targeted completion date and greatly increased its total cost. However, neither these nor the additional problems the project faces would appear to diminish the project's

validity and the objectives it is capable of achieving. Following is a summary of the project's outlook relative to where it stands at the present time:

1. The need for the project in terms of the overall Panamanian goal it addresses and purpose it will serve remains beyond question.
2. Further reaffirmation by the GOP of its intention to carry through this project largely as envisioned is currently indicated.
3. The GOP's current reexamination of the project for possible cost reduction or stretch-outs to compensate for the cost increase recently indicated is not likely to lead to significant savings under the project as presently conceived.
4. The GOP may also consider the possibility of additional foreign borrowing from a second source if no cutback or delay appears feasible.
5. Because of existing and anticipated delays in getting Phase II construction underway, the present target date of May 15, 1979 for completion of the project is not likely to be met. Utilization of all loan funds prior to the existing TDD of June 30, 1977 is still possible if AID funds are used in the early stages of Phase II construction as permitted in cable STATE 000082 dated January 2, 1976 and 100% of Phase I costs are reimbursed.

Approved: D/D:GRublee 
USAID/Panama - March 11, 1976