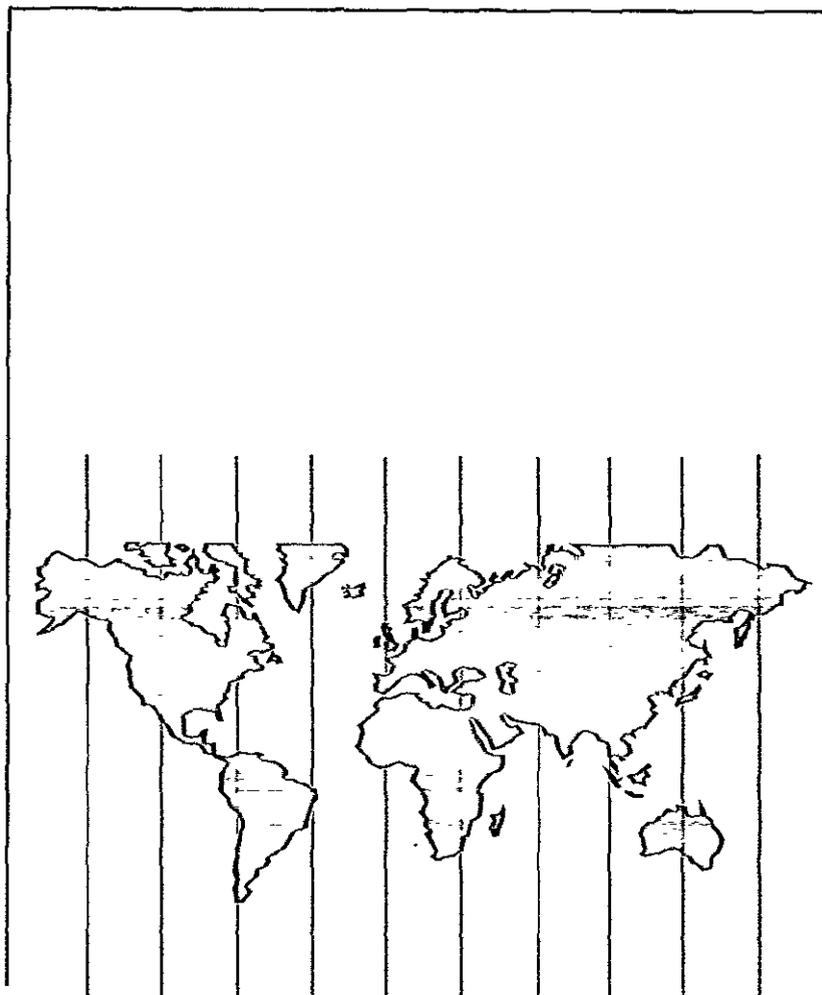


UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit

LATIN AMERICA  
(Washington, D.C.)

RURAL GROWTH AND SERVICE CENTERS

PROJECT NO. 525-0185

(LOAN NO. 525-T-047)

USAID/PANAMA

AUDIT REPORT NO. 1-525-82-8

MARCH 19, 1982

The Rural Growth and Service Centers project will cost about \$28.5 million. AID is providing \$10.0 million through the loan and \$5.4 million through a HIG program. The GOP, some municipalities and private enterprises will provide the remainder. This is a multi-sector approach to regional development problems. The broad goals of the project are to strengthen employment income generating of central and western regions in Panama and establish a system to continue development of such centers.

The complex project design and the involvement of numerous GOP organizations and activities created challenges which were not being met effectively. Although there is discernible progress, the program has serious implementation problems. Progress in most areas has been slow. Coordination is ineffective and not resolving implementation bottlenecks and problems. Monitoring by USAID/Panama technical office has erroneously assumed that GOP could play a more demanding role.

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ALPHABETICAL LISTING OF ACRONYMS

<u>Acronym</u>	<u>Organization or Activity</u>
BHN	National Mortgage Bank
CENAFORP	National Training Centers
COFINA	National Finance Corporation
GOP	Government of Panama
IDAAN	National Institute for Water and Sewerage
INAC	National Cultural Institute
INDE	National Sports Institute
MICI	Ministry of Commerce and Industry
MIDA	Ministry of Agricultural Development
MIVI	Ministry of Housing
MIPPE	Ministry of Planning and Economic Policy
MOP	Ministry of Public Works
URBE	Rural Growth and Service Center Project
USAID/Panama	U.S. Agency for International Development, Mission to Panama

RURAL GROWTH AND SERVICE CENTERS  
Project No. 525-0185  
Loan No. 525-T-047  
USAID/PANAMA

EXECUTIVE SUMMARY

Introduction

The Rural Growth and Service Centers (URBE) project constitutes a multi-element and major multi-sector initiative by the Government of Panama (GOP) and AID to strengthen the employment, income-generating and rural service capacities of selected growth and service centers in the central and western regions of Panama,; and to establish a system capable of continuing the process of developing such centers throughout Panama.

To achieve the purposes and objectives of the project, a total of eleven GOP organizations and eight municipalities are participating and/or administering various activities of the program. These activities are being implemented through three interrelated components:

- 1) Institutional Development -- Four principal activities are being implemented under this component: technical assistance, institutional training, administrative operations, and establishment of a coordinating mechanism.
- 2) Production and Supporting Enterprises -- Five activities make up this component: credit to small business industries; credit for agro-industrial purposes; construction of two industrial sites; organization of two quasi-corporations; and training of workers and small businessmen.
- 3) Housing and Town Infrastructure -- This component consists of four activities: construction of houses; construction of three transportation terminals; construction of sewerage systems in at least two municipalities; construction of five cultural and recreational centers.

The estimated cost of the project is about \$28.5 million, which is to be funded in the following manner: (a) AID Loan 525-T-047 (\$10.0 million); (b) AID HIG Program (\$5.4 million); (c) GOP counterpart funds (\$10.4 million); and (d) different municipalities (\$2.7 million). As of September 30, 1981, \$2.0 million had been disbursed under Loan No. 525-T-047. Disbursements from other sources was not readily available.

Scope of Audit

This is our first audit of the Rural Growth and Service Centers Project. It is a full-scope audit whose purpose was to evaluate the effectiveness, efficiency, and economy of project. The audit covered project activities and expenditures from its beginning on June 22, 1978, through September 30, 1981. To the extent deemed necessary, reviews, evaluations, and assessments were made of the different activities of the project.

## Conclusions

The design of this project was unusually complex. Its implementation involves many implementing and participating GOP organizations and, in our opinion, dictated an unusual amount of coordination and monitoring to harmonize the progress of each sub-activity in relation to the whole. In our opinion, the complicated challenges created by the project design have not been met and performed as effectively as they should have been. Our review showed a program with serious implementation problems. Progress in implementing most areas had been slow and less than anticipated. Coordination by the Ministry of Planning and Economic Policy (MIPPE) had not been effective and was not resolving implementation bottlenecks at an opportune time. Monitoring by the technical office of USAID/Panama had been based on an erroneous assumption that the GOP was ready to assume a very demanding role; historical events now show that the technical office needs to be more involved with this project in the future. Nevertheless, after taking the preceding into account, it is our opinion that in the three years since it was started there has been progress - although slow -- in achieving the objectives of the project.

At the time of our exit conference, USAID/Panama informed us that there is now evidence of some acceleration in the implementation of at least one activity (credit to small business) and that they felt optimistic that the full amount (\$3.8 million) of that activity would be fully disbursed in 1982. This acceleration apparently took place subsequent to our cut-off date and we did not verify it. Therefore, the following presents a synopsis of our findings and assessments as of our cut-off date, September 30, 1981:

- Efforts to improve the Institutional Development of the GOP organizations, through training and technical assistance, had not been at the levels determined by the agreement. In the case of technical assistance, only 78 man-months (of 166 planned) had been contracted. We noted two types of problems related to training; in the design stage, sufficient funds were not provided for training; in the implementation stage, the training plan had not been followed (pages 5 and 8).
- A total of 113 subloans, amounting to \$742,668, had been made to small businesses for a variety of enterprises (welding shops, dental clinics, window shops, etc.). But, usage of earmarked funds (\$3.8 million) had been slow. Three factors had precluded a faster rate of utilization (Page 9).
- Funds earmarked for agro-industrial businesses were being used at slightly faster rate. However, our sample showed two types of problems related to the need for timely submission of reimbursement vouchers, and the need to expedite approval of subloans (page 11).
- The construction of two industrial sites was at the feasibility study stage and therefore seemed substantially behind schedule. Also, the quasi-public corporations which were to be created to operate the industrial sites had not been formed. There were four basic reasons for the problems (page 12).

- The training of workers was behind schedule because no training plan that would help subborrowers manage and operate their enterprises had been developed and implemented (Page 13).
- At the time of our review, the GOP had been reluctant to make use of \$5.4 million made available by AID through the Housing Investment Guaranty funds. The GOP had used about \$600,000 of its funds to implement a series of shelter projects in four URBE project towns. The problems were well known to both the Mission and GOP and some innovative financial arrangement had been devised to resolve the complicated problem. Given the complicated circumstances involved, we believe that USAID/Panama had made commendable progress in this activity (page 4).
- No definite plans had materialized in the implementation of the transport terminal component. Negotiations involving the GOP, local governments, and transport associations continued and appeared close to being finalized (page 14).
- The implementation of two activities seemed to be progressing in a very satisfactory manner. The two activities relate to the construction of two sewerage projects (one was 80 percent complete and the other was 45 percent complete), and the construction or refurbishing of five cultural and recreational facilities (the construction of four facilities was ahead of schedule) (page 4).

### Recommendations

This report contains 13 recommendations which are included in the body and in Appendix A. The findings and recommendations in this report were discussed with USAID/Panama officials and a draft report was submitted to the Mission for review and comments. These comments, both written and verbal, were considered in preparing the final version of this report.

## BACKGROUND AND SCOPE

### Background

On June 22, 1978, AID and the Government of Panama (GOP) signed Loan No. 525-T-047, amounting to \$10.0 million, to support the Rural Growth and Service Centers (URBE) project.

The URBE project constitutes a multi-element and major multi-sector initiative by the Government of Panama (GOP) and AID to strengthen the employment, income-generating and rural-service capacities of selected growth and service centers in the central and western regions of Panama; and, to establish a system capable of continuing the process of developing such centers throughout Panama. The project emphasizes benefits to the rural and urban poor by providing them with increased income and an improved quality of life.

- The project consisted of three interrelated major components (a) institutional development; (b) productive and supporting enterprises; and (c) housing and town infrastructures.
- A variety of activities (credit, design, construction, housing, etc.), were to be undertaken in two growth centers - the cities of David and Chitre-Los Santos - and the six service centers - the towns of Concepcion, Puerto ArmueLLas, Aguadulce, Las Tablas, Penonome, and Santiago.
- The total cost of the project was estimated at \$28.5 million and the activities were to be financed from three sources, AID, the GOP, and the municipalities.
- Eleven GOP organizations and eight municipalities were participating and/or administering the various parts of the project.
- Overall, the project is being coordinated by the Panamanian Ministry of Planning and Economic Policy (MIPPE) through the Office of Urban Development (MIPPE/UD).

Exhibit A provides more details of the various interrelated activities of and organizations involved with this project. Exhibit B provides details of the amounts to be contributed by AID, the GOP, and the municipalities. Exhibit C shows the status of AID Loan No. 525-T-047. As of September 30, 1981, disbursements from the AID loan totalled \$2.0 million; this included advances of \$918,000 and reimbursements for project expenditures of \$1,061,765.

### Scope of Audit

This is our first audit of the Rural Growth and Service Center Project. The purposes of our review were (a) to determine if the program was being

carried out in an efficient, effective and economical manner; (b) to assure that AID funds were being used for project purposes; (c) to determine whether AID regulations were being complied with; (d) to assess financial and logistical support being provided by the GOP; and (e) to identify areas where improvements could result in more efficient implementation of the project.

The audit covered the period from inception of the project on June 22, 1978, through September 30, 1981, and was made in accordance with generally accepted auditing standards. We included such tests of the accounting records and other procedures as we deemed necessary under the circumstances.

Files and records maintained by USAID/Panama and the GOP were reviewed. We also assessed and discussed project progress and problems with officials of the different institutions. To evaluate activities in the field, we reviewed procedures by the different GOP organizations on 53 randomly selected subprojects in the growth and service centers. We also visited the subproject sites and interviewed subloan recipients, appropriate local government, civic, and business leaders to determine their support and participation in the project. The results of our audit were discussed with USAID/Panama officials, they reviewed the draft report on two occasions; and their comments, both written and verbal, were considered in preparing this report.

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### An Overall Assessment of Program Goals and Accomplishments

The Rural Growth and Service Centers (URBE) Project began in June 1978 and, at the time of our audit, was in its third year of implementation. The Project Assistance Complete Date (PACD) for the project was May 31, 1983.

The design and implementation of this project is complex and its broad regional development nature requires the participation and coordination of numerous organizations and entities. Also, there was a need to establish new or strengthen existing coordinating mechanisms at central government offices and at municipalities. Taking these factors into account, there has been progress in achieving the objectives of the project in the three years since it was initiated. However, progress in most areas has been slow and less than anticipated. A brief assessment of the achievements follow:

- Efforts to improve the Institutional Development of GOP organizations, through training and technical assistance, have not been at the levels determined by the agreement. For instance, plans called for 166 months of technical assistance to be provided. As of the time of our audit only 78 months had been contracted for and no technical assistance had been given to some key organizations. In addition, training needs still exist, but the loan agreement did not earmark sufficient funds for this component. Technical assistance and training activities are discussed in other sections of this report.
- A total of \$3.8 million was earmarked for subloans to small businesses. However, at the time of our review, MICI had approved a total of 113 subloans for only 20 percent (\$742,668) of the earmarked funds. Most subloans were providing benefit to small businesses and being used for a variety of enterprises: welding shops, dental clinics, window shops, ceramics, etc. Three factors had precluded a faster rate of utilization; these are discussed later in the report. However, according to the Mission, there are strong indications, as of issuance of this report, that the funds will be fully used this year.
- Funds for subloans to Agro-Industrial businesses had been used slightly faster than the funds for subloans to small businesses. COFINA had approved 20 loans with an equivalent value of \$2.4 million (about 52 percent) of the funds earmarked for this activity. However, our sample showed two problems with COFINA's procedures. These problems are discussed later in the report.
- The implementation of the Industrial Site Development component, which was being funded with \$2.4 million of GOP counterpart and municipality funds, seemed substantially behind schedule. At the time of our audit, the feasibility studies for the David Industrial Park had almost been completed and work on the feasibility studies for the Chitre Industrial Park was expected to start soon. The quasi-public corporations had not been formed. According to USAID/Panama,

the status of both feasibility studies and the formation of the corporations had changed by November 1981. The problem is discussed more fully later in the report.

- The training of workers was behind schedule. MICI had not developed and implemented a training program that would help subborrowers manage and operate their enterprises. Our field visits showed that subborrowers were receptive to training; however, none of the subborrowers that we visited had received training.
- A total of \$6.8 million was earmarked for the construction of housing. Of this amount, \$5.4 million was to come from Housing Investment Guaranty (HIG) funds; the remainder was to be provided by GOP and municipalities. At the time of our review, the GOP had used about \$600,000 of its funds to implement a series of shelter projects in four URBE project towns. However, the GOP felt that the interest rate under the HIG loan was too high and only a very minor amount of these funds had been used. This problem had been known to both AID and the GOP. In fact, in order to resolve it, AID/Washington introduced an innovative financing technique which allowed the GOP to borrow HIG funds at an interest rate of 16-1/2 percent for 6 years. The GOP had the option at the end of 6 years of converting to a 20 or 30-year loan at more favorable interest rates. The GOP had borrowed \$1.0 million of the \$5.4 million made available under the HIG portion of the project to continue the shelter portion of the project. USAID/Panama agreed to this use and had planned to credit the work already done with counterpart funds towards the \$1.0 million HIG funds made available. We believe that under the circumstances, USAID/Panama had made commendable progress in implementing the shelter portion of the project.
- Progress in implementing the transport terminal component was very limited. At the time of our audit, no definite plans had materialized for the transport terminals. Protracted negotiations involving the GOP, local governments and transport associations continued and appeared close to being finalized.
- Construction of the two programmed sewerage projects was progressing very satisfactorily and completion was expected to be ahead of schedule. The GOP reported that the Penonome project was 80 percent complete and the Puerto Armuelles project was 45 percent complete. Mission technicians were satisfied with the quality of work and the performance of IDAAN, the implementing agency.
- Construction and refurbishing of cultural and handicraft centers and community recreation facilities were progressing in a very satisfactory manner. Except for one gymnasium in Santiago, implementation of this component was ahead of schedule. The gymnasium in Santiago suffered a temporary delay. However, it was expected that the activities being implemented by INDE and INAC would be completed ahead of schedule. USAID/Panama complimented the performance of the two GOP implementing agencies involved.

- Numerous GOP organizations were either administering and/or participating in different parts of the project. The establishment of an effective and efficient coordinating mechanism(s) was according to USAID/Panama, one of the key objectives of the project. A coordinating committee was established and had met twice. Also, development of town plans was a process, which, according to the USAID/Panama, was being institutionalized. Progress was therefore being made in this respect. Yet, our review showed that there were many problems which reflected on the coordination of the many organizations involved in this project and there was a need for the Mission technical office responsible for monitoring the project to be more involved in the monitoring responsibilities of this project.

In sum, our analysis showed that progress was being made to achieve the objectives of this complicated project. Large disbursements can be made for the simpler sewerage projects which are funded solely with GOP funds; for this reason, more progress was reflected on those activities which were wholly financed by the GOP with its own funds and less progress was reflected in areas financed with AID loan funds or jointly financed by GOP and municipalities. However, based on our review, it is our opinion that the URBE project had some very serious implementation and procedural problems. It is our assessment that the project is perhaps between one or two years behind schedule. We believe that USAID/Panama should address the problems discussed in this report, implement the recommendations made and determine a reasonable time frame to implement the activities under this project.

#### Technical Assistance

Three years into the program, the GOP had contracted for less than half of the planned technical assistance requirements. Only four of the eight organizations which were to receive technical assistance had benefited from these contracts. Two factors accounted for this condition. First, a clearly defined technical assistance implementation plan had not been produced. Secondly, the cumbersome and lengthy contractual procedures within the GOP delayed implementation. We believe the technical assistance needs of the project should be addressed in an urgent manner so that the objectives desired under the Institutional Development component can be fulfilled.

MIPPE was responsible for administering the technical assistance phase of the project where \$1.1 million was set aside to contract for 166 months of effort. According to the loan agreement, MIPPE was to design a technical assistance plan and contract for a variety of advisory disciplines, such as: urban planners, urban development advisors, municipal administration advisors, municipal tax administration advisors, evaluators for the URBE project, subproject development specialists, promotion and publicity specialists, and management advisors. This technical assistance was to be rendered by the advisors to eight different organizations.

A comparison between the illustrative plan shown in the loan agreement and the actual contracts signed by MIPPE follows:

Recipient Organization	Planned	Months		Percent Goals Met
		Contracted	Actual Provided	
MIPPE	42	42	42	100
MICI	28	12	2	42
MIDA	21	12	4	47
BHN	18	12*	5*	67
COFINA	10	--	--	--
MIVI	41	--	--	--
IDAAN	3	--	--	--
INAC	3	--	--	--
	<u>166</u>	<u>78</u>	<u>53</u>	<u>47%</u>
	===	==	==	===

\* Contractor quit working when contract terms were changed. Seven months will not be provided.

The above table shows that MIPPE has been the chief recipient of the technical assistance provided so far. Of 53 months provided, MIPPE had received 42 (about 79 percent). It also shows that three other organizations were receiving some advisory services. However, no technical assistance had been contracted for four organizations: COFINA, MIVI, IDAAN, and INAC. The type of disciplines provided by the above contracts were urban development and credit finance.

We found that two factors accounted for the shortfall of this subcomponent. First, MIPPE had not been able to produce a clearly defined technical assistance plan. According to the Mission, MIPPE made earnest attempts to determine the technical assistance of other organizations, but it was unable to obtain full cooperation from them. MIPPE has submitted only one annual technical assistance plan since inception of the project. This plan was submitted in 1979 and was essentially taken from the illustrative plan shown in the loan agreement.

The plan called for the contracting, during 1979, for advisors to work approximately 52 months in various disciplines, such as, financial management, urban development, small businesses, credit, food processing and beef and cattle industry. Seven GOP agencies were to have received technical assistance.

Although MIPPE made a good start in 1979, adherence to the illustrative plan in the loan agreement and the 1979 plan was minimal. Neither plan had been revised and MIPPE did not submit a new annual plan for 1980 and 1981 as required by the loan agreement.

As noted earlier, MIPPE received most of the technical assistance and the 1979 plan was not followed. Instead of contracting the eight advisors in as many disciplines as originally planned, the MIPPE chose to renew the contracts of two advisors. As a result, it used up its share of technical assistance funds without getting assistance in all planned technical areas. The two

advisors did not work exclusively on the URBE project, but also worked on other projects for MIPPE.

As of the cut-off date of our audit, it was not clear whether MIPPE would contract for additional advisors for itself, and if so, how this would affect the delivery of technical assistance to the other GOP agencies since there was no plan for implementation. Neither MIPPE nor USAID/Panama were able to provide us with documentation showing what efforts were being made to identify and contract the needed technicians or whether technical assistance needs were being reevaluated in order to develop a clearly defined plan of implementation.

The second factor for the shortfall referred to the cumbersome and lengthy contractual procedures within the GOP. After a contract is negotiated, it is signed by the Minister and the contractor; then it is forwarded to the Controller General for his counter-signature. Subsequently, it is sent to the President of Panama for his signature and finally, it is returned to the originating Ministry for another counter-signature. Based on previous experience and, under the best of circumstances, this procedure takes a minimum of six to eight months.

In order to expedite the procurement of professional services under this project, a model contract incorporating the legal requirements of both AID and the GOP was adopted. It was also agreed that only the signatures of the MIPPE Minister and the contractor were needed to make the contract binding. However, after three contracts had been signed, MIPPE's new legal counsel ruled that the contracts were not valid because they lacked the signatures of the Controller General and the President of Panama. It was also ruled that these contracts had to be renegotiated and that all contracts should go through the regular GOP procedures.

The model contract was revised and one of the clauses gave the GOP the right to terminate the contract unilaterally on the basis of a 60-day notice without compensation to the contractor. Although the right of the GOP to terminate a contract cannot be denied; provisions like this leaves the contractor without reasonable protection and makes it difficult to retain competent contractors. For example, an advisor contracted to work for the National Mortgage Bank (BHN) resigned when the terms of the contract were changed. This resignation left the BHN without needed technical assistance for the URBE project. It also could have significant repercussions on other Housing Investment Guaranty projects which require contract and placement of technical assistance before disbursements can be made. According to the Mission, it will continue to negotiate with the GOP to find a solution to the cumbersome contractual procedures.

The lack of technical assistance was a contributing factor to the slow implementation of this project. The agencies have not been provided the needed technical assistance to strengthen their institutional capability and, consequently, they have not been able to adequately discharge their duties under the program in the areas of planning, feasibility studies and credit. These deficiencies are discussed in other areas of the report.

Both MIPPE and USAID/Panama were aware of the need to obtain competent professional expertise to help the GOP agencies fulfill their obligations

under the project. In fact, USAID/Panama had urged the GOP to find alternative ways and means to expedite the implementation of technical assistance.

In sum, there was a need for a thorough review of the immediate technical assistance needs of each agency so that a clearly defined implementation plan can be designed and executed. In addition, USAID/Panama is making every effort possible to find a solution to the bottleneck created by current contracting procedures. According to the Mission, these efforts will be continued.

#### Recommendation No. 1

USAID/Panama should obtain from MIPPE a technical assistance plan that will address the needs and priorities of the URBE project.

#### Institutional Training

In the design phase of this project, sufficient funds were not earmarked for this component to fulfill the required training needs. In the implementation phase, the institutional training plan submitted by the coordinating agency was not followed. While some observation trips, seminars, and some long-term training have been provided, GOP officials advised us that the training plan did not clearly define nor address the needs of the participating GOP agencies. Consequently, personnel were working without much orientation and often lacked training in important technical areas. However, at our audit cut-off date, most funds (88 percent) had been used and the Mission needs to reexamine the funding priority requirements of this project.

In accordance with the terms of the loan agreement, a total of \$105,000 of loan funds were earmarked for this component. Also, during the implementation phase, an institutional training plan was submitted by MIPPE to USAID/Panama in January 1979. The plan proposed courses and seminars in the areas of analysis and promotion of agro-industry and small businesses, food processing and credit evaluation. Also included in the plan were long-term training (post-graduate) in the disciplines of Business Administration and Industrial Engineering. The training was to be provided to officials of four GOP agencies: MIPPE, MIDA, MICI, and COFINA.

Our review showed that the following training had been financed with project funds:

- Two seminars in Panama - a three-month Regional Development Planning course attended by about 90 persons, and presented by the Latin American Institute for Economic and Social Planning (ILPES); and a three-day municipal development seminar organized by MIPPE and attended by 50 persons;
- Three observation trips by officials of MICI and the MIPPE one to Colombia and two to Mexico; and
- Long-term training post-graduate work for three officials of the MIPPE. Two were attending U.S. institutions but one had to drop out for personal reasons.

The above training has obviously been beneficial to the participants. Yet, in discussing the training needs of the different organizations, officials of MICI, COFINA, BHN, and MIVI told us that they had discussed with MIPPE officials the need for short-term training in areas, such as, project evaluation, credit analysis, and subloan promotion which were closely related to actual project implementation. They felt that this type of training emphasis would enable the employees to better understand the objectives and goals of the program.

Our visits to the various field offices supported the above sentiments. We found that there was a continuing need for training of MICI and COFINA personnel in the areas of credit analysis, project evaluations, etc. (Page 11).

Both USAID/Panama and MIPPE had recognized the need for further institutional training to ensure further institutional development. However, in designing this project, only \$105,000 was earmarked for this component under the loan. Most of these funds (\$92,373) had been expended by the time time of our audit, i.e., only \$12,627 remains unexpended for this component. We believe USAID/Panama needs to examine the funding priority requirements of this project to determine if additional funds can be transferred to this component.

#### Recommendation No. 2

USAID/Panama, in conjunction with the GOP, should examine funding levels of the various project components to determine if excesses are available which can be used to increase the institutional training component.

#### Credit for Small Business Industries

At the time of our review, MICI had made 113 subloans totalling \$742,668 (about 20 percent of allocated funds) to small businesses for plants, equipment, and working capital. We evaluated the procedures followed in processing 46 of these subloans from application to end-use. Visits were made to the organizations involved in the 46 subloans. Based on our analysis, we concluded that three factors have precluded a faster use of these funds: (a) complicated and cumbersome processing procedures for subloans; (b) a lack of personnel and equipment; and (c) meager technical assistance and training.

(NOTE: At the Exit Conference, USAID/Panama commented that there had been a marked acceleration in this activity since our field work. There is now promise that all remaining funds for this activity will be disbursed during 1982).

The observations noted at the time of our field work are discussed in the following paragraphs.

#### Complicated and cumbersome Processing Procedures

Regardless of the size of the project or the amount of the subloan, borrowers were required to submit a series of documents which were difficult and time-consuming to prepare. For example, each borrower was required to submit

a complete financial statement and detailed project feasibility study. These stringent requirements created problems for applicants, particularly those with scarce resources and small projects. Frequently the small entrepreneurs were not able to develop the data for themselves and they either had to pay someone or patiently wait until MICI's promoter was available to provide assistance.

The review by MICI of subloan applications and supporting documentation also required considerable time. Initially, subloan applications are submitted to field offices where they are received and then forwarded to the main office for final review and approval. In some cases, the applications are returned to the borrowers for additional information or study before final approval. Out of the 46 applications in our sample, 34 were returned at least once for additional data; and 43 had a waiting period of more than six months between application and final approval. Under the agency's procedures, each time an application is resubmitted, it is treated as a new one, and it goes through the entire review process again.

Some borrowers complained that, due to the delays, they have been forced to curtail or redesign their projects. By the time their loans were approved, the costs on which the application were based had increased so significantly that the loan proceeds were not sufficient to finance the transaction as originally planned.

### Recommendation No. 3

USAID/Panama should review with MICI its loan processing and approval procedures and, where feasible, implement modifications which will expedite the credit review process.

### Lack of Personnel and Equipment

During our visits to MICI's main and field offices and our interviews with the agency's personnel and officials, we noted that the agency lacked the necessary personnel and equipment to adequately promote, supervise and monitor the program. In David for example, there was only one promoter, and although a second one had been hired, it was unknown when he would report for work. We were informed that the hiring of additional personnel had been requested; but because of the austerity program of the GOP, it was doubtful whether additional personnel would be hired. Another problem affecting field office operation was the lack of transportation equipment. In David for example, employees use their own vehicles or public transportation to carry out their functions.

These factors have affected the implementation of the project in several ways. For example, field promoters were required to promote the project and seek new borrowers; assist clients with their applications, review applications; monitor subprojects and maintain a current portfolio. Since staff was not sufficient, field personnel concentrate their efforts on subloan processing and in ascertaining that borrowers were current with their payments. Program supervision and monitoring, for example, had to be neglected. Over 50 percent of the borrowers we interviewed confirmed that they had not received visit from GOP agency or USAID/Panama officials. Only those that were or have been in arrears acknowledged visits from MICI personnel.

#### Recommendation No. 4

USAID/Panama should obtain from MICI its plan for providing the personnel and transportation equipment needed to adequately supervise the credit program for small businesses under the URBE project.

#### Meager technical assistance and training

Most of the time, new personnel begin working without adequate training on program objectives and goals, or with little knowledge in the areas of credit analysis and project evaluation. Consequently, the employees have to learn on the job through actual experience; according to some of these officials, they find themselves limited in discharging their duties.

The urgent need for technical assistance and training for officials working in the different components of this project is discussed in another part of this report. Therefore, we are not including a recommendation at this point.

#### Credit for Agro-Industrial Companies

At our cut-off date for our audit, 20 subloans amounting to \$2.4 million had been approved. Therefore, considerable progress had been made under this activity. Nevertheless, our review of nine subloans showed two types of problems: (a) reimbursement vouchers were not being submitted to USAID/Panama on a timely basis; and (b) there were long delays in approving subloan applications.

A total of \$4.6 million was earmarked from loan funds, counterpart funds, and other resources for the purpose of providing credit in the form of subloans to agro-industrial companies for plants, equipment and working capital. The activity was being administered by the National Finance Corporation (COFINA). In coordination with COFINA, the Ministry of Agriculture (MIDA), through a Technical Coordinating Committee, will carry out the technical support activities to ensure that each subproject is consistent with MIDA's agro-industrial policies.

#### Reimbursement vouchers were not submitted in a timely manner

At the time of our review, COFINA was considerably behind in submitting reimbursement vouchers to USAID/Panama. In fact, only one reimbursement voucher request had been submitted. USAID/Panama reimbursed COFINA a total of \$500,000 for one subloan on the voucher. This subloan did not meet all the criteria for financing with AID loan funds because the funding for the subloan came from AID and World Bank funds and none from GOP resources. This reimbursement was discussed with COFINA and USAID/Panama personnel and its eligibility was being reevaluated. We were advised that COFINA was in the process of preparing a second reimbursement voucher.

Three reasons were cited by COFINA officials for not submitting reimbursement voucher on a timely basis: (a) AID requirements were considered

too time-consuming because original invoices, shipping reports, etc., needed to be submitted; (b) COFINA's volume of business had kept its staff busy; and (c) COFINA had adequate capital reserves.

We believe that COFINA should change its practice and submit reimbursement vouchers on a more timely basis. Unless the practice is changed, the true status of sub-obligated loan funds cannot be determined at any particular time.

#### Recommendation No. 5

USAID/Panama should request COFINA to submit reimbursement vouchers on a timely basis.

#### Long delays in approving subloan applications

The nine subborrowers in our sample complained about the long delays in obtaining subloan approval. In four instances, it took over a year to process the applications. One of which took 2-1/2 years.

We were told that there were two main reasons for the long delays. First, it took time for COFINA to assist in and review of feasibility studies due to the size and complexity of some projects. Second, because of staff limitations, COFINA and USAID/Panama required a long time to review them. COFINA was making efforts to increase its staff in order to alleviate the delays.

#### Recommendation No. 6

USAID/Panama should review with COFINA its loan processing and approval procedures and, where feasible, implement modifications which will expedite the credit review process.

#### Industrial Parks

According to the loan agreement, two industrial parks were to be constructed with \$2.4 million of counterpart funds in the cities of David and Chitre and two quasi-corporations were to be created to operate and maintain the industrial parks. At the time of our review, the industrial parks had not been constructed and the quasi-public corporations had not been created. There were several reasons for this, including: (a) the inability to acquire land at a reasonable price; (b) a dispute between organizations on the location of the sites; (c) uncertainty of budgetary funding availability; and (d) lack of technical assistance. According to USAID/Panama, some aspects had changed by November 1981. Nevertheless, we believe a work plan is needed to satisfactorily achieve the objectives set for this subcomponent.

At the time of our audit, the feasibility studies for the David facility were being completed, and work on the feasibility studies for the Chitre park were expected to start soon. There had been no firm decision made for the selection and acquisition of the land for the two facilities. The two quasi-public corporations had not been formed and their by-laws had not been adopted.

In fact, the Ministry of Commerce (MICI), who administers this sub-activity, had experienced considerable difficulties implementing it. Several factors contributed to the delays in implementation. At first, the GOP planned to use private consultants to develop plans and do feasibility studies; these plans were changed and the special projects unit of MICI was assigned the task of developing plans and conducting the feasibility studies. However, MICI did not have the technical expertise and staff to adequately carry out the newly assigned responsibilities. Moreover, as a result of an austerity program of the central government, MICI experienced difficulties in receiving budgetary support on a timely basis. Also, requests for and discussions between MICI and MIPPE did not result in securing the needed technical assistance.

At the local level, ad hoc committees were established to help with the projects; however, differences of opinion as to what to do, site selection, financing and mode of operation had not been settled. Municipalities had not been able to provide the land which would be suitable for this kind of project; alternative donors or sellers had been sought and offers received, but no final decision had been made regarding the construction of the sites or incorporation of the quasi-public corporations.

The industrial parks are a vital element of the project since they are expected to play an important role in fostering the employment and income generating capacity of the growth and service centers. Without the industrial parks, the local communities will have difficulty in attracting new businesses and industry to the area. The consequent end result will be that the generation of new employment, one of the goals of the URBE project, will be difficult to be attained.

In its comments to the draft of this report, we were advised by the Mission that as of November 1981, advertisement for bids for the construction of the David park were underway, and that the plans and specifications for the Chitre park had been completed and that the bidding process was to be initiated shortly. However, documents supporting these developments were not submitted to us.

#### Recommendation No. 7

USAID/Panama should obtain from the MICI its workplan and implementation schedule for the industrial parks in David and Chitre, including evidence that the budgetary support required for the completion of the facilities will be made available.

#### Training for Small Businessmen and Workers

Some orientation and information seminars have been held, but no actual training assistance has been provided to small businesses. In fact, progress in this activity has been slow for two reasons: (a) MICI lacked the required expertise to conduct courses in business management; and (b) COFINA and MIDA had not determined training requirements of agro-industrial workers. Our visits to the subprojects showed that some of the problems were of the managerial nature and their effect could at least have been minimized had the businessmen received the basic management training contemplated for under the URBE project.

About \$300,000 was made available in loan funds and counterpart funds: (a) to train workers in agro-industries and small businesses; and (b) to finance courses in small business management. MICI was to provide courses in small business management for its subborrowers; COFINA and MIDA were to determine the training needs of the workers in agro-industries, and the National Training Center (CENAFORP) was to provide the training.

Five two-day orientation and information seminars for small businessmen were held in URBE towns for the purpose of explaining and promoting the program. At the same time, surveys were taken with the objective of generating basic data on the needs of the small businessmen. However, courses in small business management or training for workers had not been provided. We were told by MICI officials that they lacked the staff and expertise to provide the management courses, and they had to work with the MIPPE to present the five two-day seminars. MICI had also asked for the needed technical assistance to implement this subcomponent but nothing had materialized.

COFINA and MIDA had not been developed a workplan nor determined the training needs of the agro-industry workers. They could not tell us when a workplan would be ready. MIPPE had been working with the implementing agencies and advised us that training will be starting soon; however, no implementing schedule was available.

The lack of training, particularly to small businessmen, contributed to difficulties experienced by some of the borrowers. Since they lack familiarity with elemental management and administrative principles, some borrowers were making decisions that, on occasions, were not in their best interest. For example, we visited two businessmen whom, without knowing what they had on hand, went ahead and bought large quantities of basic raw materials; by the time they realized the need of the other materials and supplies, their financial resources were gone and they could not finish the production of their products. In another instance, we visited another businessman who was about to go out of business. In this case, sales were very good, but the sale price did not cover the cost of production.

Most of the businessmen we visited expressed interest in receiving some basic training that would aid in the operation of their businesses. The businessmen need training in the basic elements of business management such as bookkeeping, store and shop layout, etc. In our opinion, the training needs of small businessmen and workers should be addressed immediately in order to help ensure the success of this subcomponent.

#### Recommendation No. 8

USAID/Panama should obtain the GOP agencies' implementation plan for providing training needs to small businessmen and workers.

#### Transport Terminals

To facilitate the safe and orderly movement of agricultural products and people in the project areas, a total of \$2.5 million of loan funds and \$800,000 counterpart funds were allocated for the construction of three

transportation terminals in David, Santiago, and Chitre. Subloans for the terminals will be administered by COFINA. None of the three transportation terminals had been constructed. Several factors have contributed to this condition: (a) the lack of experience and expertise of the GOP technicians assigned to do the feasibility studies, plans and specifications for the three terminals; (b) the long unresolved negotiations between transport associations and local governments with regard to site selection, facility design and mode of financing and administration; and (c) problem related with coordination.

Of the three planned terminals, the David facility has progressed the most. However, it was estimated that its construction would not start before the second quarter of 1982. Work on feasibility studies for the other two facilities had not been completed.

The overriding reason for the considerable delays in the completion of the studies had been the decision by the GOP to use its own technicians to do feasibility studies and to develop plans and specifications instead of using private consulting firms as originally planned. It took some time to put the team together, and because of their inexperience, their work had to be reviewed and monitored closely.

The negotiations between transport associations and local governments had been a long and tedious process. As of the date of our visit, the issues had not been resolved. In David for instance, negotiations had been going on for several months but the parties had not been able to reach agreement on some important points. For example, site selection was a thorny issue. The local government wanted the terminal built on public property located on the outskirts of the city. The transport association wanted the facility built on a downtown private property lot where it had an option to buy. Another major point in dispute was the constitution and by-laws of the quasi-public corporation that would be responsible for the development and operation of the facility. Each party wanted a controlling interest and each have different ideas about financing and administering the facility. The design of the facility, how many parking spaces and size of waiting area, were the major points where the parties had not been able to agree.

MIPPE had not been effective in helping the parties resolve their differences. We were told by MIPPE officials that at the beginning of the local negotiations, MIPPE did not take active participation. Consequently, negotiations were conducted without guidance which in turn allowed the parties to become less flexible making it more difficult to work out an acceptable compromise.

Actual construction for the David terminal was not expected to start until the second quarter of 1982. Estimates for the completion of the feasibility studies and design plans for the transport terminals in Santiago and Chitre varied from two to nine months.

We were advised that MIPPE was going to develop a workplan and take a more active role in the negotiations so that a workable agreement can be reached within a shorter period of time.

During our field visits, transportation and local officials told us that active involvement in the negotiations by the MIPPE will help provide guidance and assistance in finding ways to resolve the differences encountered during negotiations.

The transport terminals are an important component of the URBE project, and as the growth and service centers develop, their importance will be even greater. In our opinion, it is essential that prompt solutions be found to the obstacles affecting the construction of the three terminals.

#### Recommendation No. 9

USAID/Panama should establish a plan of action to work closely with the GOP and local officials in developing a workable implementation plan for the construction of the transport terminals.

#### Evaluations and In-depth Study

The loan agreement (Section 6.5) and related implementation letters contemplated two types of evaluations of the project: annual evaluations beginning in 1979 and an in-depth study to measure the impact and combined effect of the multi-sectoral project. The in-depth study was to evaluate whether there was greater effect by the multi-sectoral approach vs. individual activities. This in-depth study was to be initiated between the third and fifth year of actual implementation. Our review showed the following:

- MIPPE has prepared reports for the years 1979 and 1980. These reports represented a combination of an annual progress report and semblances of an evaluation. However, they are not true evaluation reports, and their coverage was limited mostly to efforts being made to implement the different activities;
- Based on the 1979 and 1980 GOP reports, USAID/Panama prepared a draft evaluation report covering an 18-month period. However, the methodology used to prepare the USAID/Panama "evaluation report" did not meet the requirements of a thorough Performance Evaluation Summary (PES) for AID/Washington. The PES was not issued in final form; and
- Regarding the in-depth study, an AID/Washington employee was assigned on TDY to Panama during the early part of project implementation to assist in establishing the parameters and data needed for the study. His report (dated May 25, 1979) outlined alternate ways of accomplishing the study. However, at the time of our review, no definite plans to conduct the study had been finalized.

USAID/Panama and various GOP offices acknowledged the need for evaluations and an in-depth study of the project. We believe that these reviews could be most beneficial to the progress of the project. Assessments help management identify and resolve implementation constraints opportune times.

Recommendation No. 10

USAID/Panama, in conjunction with the MIPPE, should develop and implement the required procedures to perform annual evaluations, as well as a workplan which sets forth the baseline data and other criteria to ensure the timely completion of the in-depth study of the impact of the project.

Advance of Funds

To facilitate project implementation, USAID/Panama provided an advance of funds amounting to \$918,000 to three GOP organizations: MICI (\$300,000), COFINA (\$500,000), and MIPPE (\$118,000). There was apparently limited use of the funds advanced to MICI and COFINA and MIPPE needed to account for or liquidate advances of \$103,891 which had been outstanding for excessive extended periods of time. There was also a need for USAID/Panama to review advances in a more consistent manner.

The following presents a history of the advance of funds to the three GOP organizations:

<u>Date</u>	<u>Payee/Purpose</u>	<u>Advanced</u>		<u>Accounted for</u>	<u>Unliquidated</u>	
		<u>Amount</u>	<u>Total</u>	<u>or</u> <u>Liquidated</u>	<u>Balance</u>	<u>Total</u>
4/30/79	MICI/Sma. Bus. Revolving Fund	\$300,000	-0-	-0-	\$300,000	-0-
5/15/79	COFINA/Agr. Industries	<u>500,000</u>	<u>800,000</u>	-0-	<u>500,000</u>	<u>800,000</u>
5/24/79	MIPPE/IIPES Con- tract Training	18,000	-0-	1,495	16,504	-0-
6/22/79	MIPPE/Technical Assistant	10,000	-0-	2,500	7,500	-0-
4/28/80	MIPPE/Tech. Assis- tant Training	40,000	-0-	8,276	31,724	-0-
10/13/80	MIPPE Tech. Assis- tant Training	<u>50,000</u>	<u>118,000</u>	<u>1,837</u>	<u>48,163</u>	<u>103,891</u>
	Total	-0- =====	\$918,000 =====	\$14,109 =====	-0- =====	\$903,891 =====

Our review of the activities of the two revolving funds (MICI and COFINA) showed that the turnover rate for these funds did not justify the amount of the advances. For example, during the 29 month period in which the MICI advance remained outstanding, only \$742,668 has been obligated. Reimbursements to MICI for the same period totalled \$336,000 which indicates a low turnover rate for the \$300,000 advanced. In the COFINA case, although \$2.4 million has been obligated, only one reimbursement for \$500,000 has been

made during a 28 month period which also indicates a low turnover rate for the \$500,000 advanced to establish the revolving fund. During our visits we were told by COFINA officials that the agency's cash resources were adequate to maintain this level of operation. In our opinion, USAID/Panama should reevaluate the need for these two advances and make the necessary reductions to efficiently meet the demands of the two programs.

As noted above, USAID/Panama advanced a total of \$118,000 to MIPPE between May 1979 and October 1980. MIPPE had accounted for \$14,109. However, it had not accounted for \$103,391 which remained outstanding for an excessive period of time.

Our review of USAID/Panama accounting records and procedures revealed that cash advances were not reviewed periodically, and, in most instances, liquidation was being left up to the implementing agency's initiative. For example, MIPPE had not been asked to liquidate outstanding advances made for terminated contracts.

Due to the lack of periodic reviews of advances, implementing agencies often did not feel required to liquidate outstanding balances. As a result, U.S. funds remained idle in the agencies' accounts for considerable periods of time.

We made the following recommendations in an initial draft report:

"USAID/Panama should request MIPPE to account for or refund the advance of \$103,891."

"USAID/Panama should establish and implement procedures to review all outstanding advances on a periodic basis to ensure that amounts advanced are adequate for efficient operation and that unused funds are promptly refunded."

Prior to the release of this report, the Mission had implemented the necessary actions. For this reason, the two recommendations are no longer included in this report.

#### Information and Publicity

The GOP had not given appropriate publicity to the project contribution by the U.S. Government; such positive publicity was required by Section B.8 of the loan agreement and attachments to Implementation Letter No. 1.

None of the 53 subprojects visited by us had signs or emblems indicating U.S. participation in the financing of the project. The majority of the beneficiaries did not know of AID's participation in the project.

The MIPPE coordinator was aware of the requirement but told us that no signs or emblems had been acquired because the MIPPE did not have the funds and he assumed that AID was going to furnish them.

We were advised by the Mission that although wholly financed with counterpart funds, signs indicating AID's participation were being erected at the sites of the two sewerage systems and that the same will be done with the industrial parks. Furthermore, we were told that steps would be taken to ensure that appropriate markings and signs are installed or appropriate publicity given to our participation.

#### Recommendation No. 11

USAID/Panama should assure itself that the GOP has complied with the information and markings requirement of Loan Agreement No. 525-T-047

#### Program Monitoring, Implementation and Coordination

Staff members of USAID/Panama and the various coordinating, administering, and/or participating GOP organizations have been making efforts to fulfill the monitoring (USAID/Panama), Implementation (11 GOP organizations) or coordinating (MIPPE) responsibilities. However, the implementation of this project is unusually complex and has created complicated challenges in the areas of monitoring, implementation and coordination, which, in our opinion, have not been met and performed as effectively as they should have been. In fact, the historical events of this project now show that the technical office of USAID/Panama needs to be more involved in the monitoring of this project.

As can be observed in different parts of this report, our review disclosed a series of problem areas which, when viewed collectively, indicated the need for the monitoring and supervising or coordinating responsibilities to be performed in a more effective manner.

This project is not an easy one to implement. The background section and Exhibit A of this report provides a good idea of its complexity. Briefly, there were three major components to the project. Within those three major components, a total of 10 different subactivities were being financed and implemented. Each sub-activity had its own ground rules, financial arrangement, implementation procedures and problems. Eleven GOP organizations (MIPPE, MICI, COFINA, MIDA, IDAAN, etc.), several municipalities and private interests were either administering or participating in some manner or other in the implementation of this project. A more simple process might have been to conceptualize and fund each sub-activity as an individual project. But, the reality of the project is its complex design. From its inception, the design of this project dictated unusual efforts in coordination and monitoring to harmonize the progress of each sub-activity in relation to the whole.

Coordination of the project has been the responsibility of MIPPE. According to a USAID/Panama memo (dated November 24, 1981) to us, the establishment of effective and efficient coordinating mechanisms was one of the key objectives of the project. The Mission feels that coordination has not been a major constraint and cited the following as examples of progress in this area:

- The establishment of a coordinating committee consisting of the department heads of the implementing agencies and chaired by the Vice-Minister of Planning. This committee meets at least once a year to review (evaluate) progress, identify problems and evaluate alternative solutions to make appropriate recommendations. It also reviews operational plans and the budget for the following year. This committee has convened twice.
- The development of town plans institutionalized a process which stimulates active participation of central government officials, local officials and the private sector in the identification of their development needs and problems and in working together to solve them. This process has been coordinated successfully by the MIPPE. To date, plans have been completed and adopted by the respective municipios as the official working document to provide the guidelines for their physical development.

Undoubtedly, the establishment of the coordinating committee and development of town plans represent an excellent beginning in improving coordination of the different aspects of the project. Nevertheless, the findings in our review present very persuasive evidence that coordination continues to be a problem that needs to be addressed. Some brief examples follow:

- The technical assistance and training needs of the different organizations were not being effectively designed or followed;
- The personnel and equipment requirements of some subactivities were not being effectively analyzed or fully met;
- Implementation bottlenecks were not being resolved in a timely manner. i.e., selection of the sites of the industrial parks and transport terminals; formation of quasi-corporations; complicated procedures in processing subloans; and complicated contractual procedures; and,
- Visits to subprojects were not being made to obtain feedback and apply the lessons learned to future activities in a beneficial manner.

In our opinion, the complexity of the project required an unusually large degree of monitoring efforts on the part of USAID/Panama. We believe that the monitoring efforts have not been in line with the requirements of the project. Following are some of our observations:

- In a memo (November 24, 1981) to us, USAID/Panama stated that "... USAID official travel records show the project officer made numerous trips to the interior, to various project sites ...". The facts indicate the contrary. Other than visits made by the Mission's engineering office to two sewerage projects which were being funded totally with GOP funds, we found no evidence of extensive field visits to problem areas or to project sites by the project management office. In fact, we reviewed the travel records of project management for FY 1980 and 1981. They showed three trips of short

duration. One trip was to Chitre-Los Santos and the other two were to Las Tablas; the trips were for the purpose of participating in seminars for small businessmen.

- During our field visits, field personnel of MICI, COFINA, and MIPPE told us that they had not been visited by Mission personnel. In David for example, local officials and private citizens involved in the development of the industrial park and the transport terminal felt that visits by USAID/Panama would have helped to resolve some of the differences developed during negotiations for the sites and formation of the quasi-public corporations.
- Our field visits to the 53 borrowers and project sites showed that USAID/Panama had not visited any of them.
- The files of the technical office lacked several basic documents. For instance, basic information like names and addresses of GOP field offices and officials were not documented. The files did not contain evidence that contract plans and, construction specifications had been reviewed and approved by the Mission. We requested in writing at least seven different documents (such as, contracts, analysis of bids, and evidence of land acquisition.) As of the issuance of this report, this information had not been made available to us.
- Although Mission policy requires the preparation of a field trip report after each such visit, there were no trip reports in the files.

We believe that the monitoring approach used by the Mission technical office responsible for monitoring the project is the underlying cause of the problem. In this respect, we were told by a member of the USAID/Panama technical office that since institutional development was one of the goals of the project, he felt that the day-to-day coordinating and monitoring should be left up to the MIPPE unit and that the project office monitorship should be limited to review of the MIPPE progress reports and frequent informal visits with MIPPE coordinator and officials of other GOP agencies. Thus, our previous observations merely corroborate the actual practice of this monitoring approach.

Historical events of this project now indicate that the GOP is not yet ready or able to assume such a demanding role and that the Mission needs to be more involved in the monitoring responsibilities required for this project. As we see it, the complexity of and multiple problems noted on this project do not permit a hands-off approach in such a complicated project.

#### Recommendation No. 12

USAID/Panama should request MIPPE and the Coordinating Committee to meet more frequently to ensure that implementation problems and bottlenecks are detected, coordinated and corrected in a timely manner.

Recommendation No. 13

USAID/Panama monitoring efforts should be reexamined and an action plan established to assure adequate project officer guidance, timely involvement, and reporting for more orderly implementation of this project.

Rural Growth and Service Centers  
Project No. 525-0185  
More Background on Activities, Purpose, Funds, and Organizations

<u>Components</u>	<u>Amount (In \$Millions)</u>	<u>Purpose</u>	<u>Participating Organizations</u>
<u>Institutional Development:</u>			
Technical Assistance	\$1.1	To finance a technical assistance program to strengthen the capacity of the national institutions to plan and assist the development of growth and service centers to carry out their responsibilities.  The technical assistance plan was to be developed and the assistance was to be given to the the 9 participating GOP organizations, (MIPPE, COFINA, MIDA, MICI, MIVI, BHN, IDAAN, INAC) and cover spectrum from artisan products to evaluations and impact studies.	MIPPE, as coordinator.
Institutional Training	0.2	To finance a training program to strengthen capacity of national institutions to plan and assist the development of growth and service centers to carry out their responsibilities under the project. A training plan was to be developed.	MIPPE, as coordinator.
Administrative Expenses	1.4	To finance with counterpart funds the salaries and operations of the different GOP organizations.	GOP
<u>Production &amp; Supporting Enterprises:</u>			
Small Business Industries	3.8	To provide credit in the form of subloans to small businesses for plants, equipment, and working capital. Subloans are not to exceed \$50,000 and AID is to approve all subloans above \$15,000.	Ministry of Commerce and Industry (MICI) administers the activity.

Rural Growth and Service Centers  
Project No. 525-0185  
More Background on Activities, Purpose, Funds, and Organizations

<u>Components</u>	<u>Amount (In \$Millions)</u>	<u>Purpose</u>	<u>Participating Organizations</u>
Agro-Industrial	\$4.6	To provide credit in the form of subloans to agro-industrial firms for plants, equipment and working capital. Subloans are not to exceed \$500,000. AID is to review all subloans above \$250,000.	National Finance Corporation (COFINA) administers the activity and the Ministry of Agri. Development (MIDA) participates in its implementation.
Industrial Sites	2.4	To finance two industrial sites located in Chitre and David. Sites are to be maintained by two quasi-public corporations that would be created.	COFINA, MICI, Municipalities, GOP, private interests.
Training of workers and small businessmen	0.3	To train workers in small industries, agro-industries, and provide courses in small businesses.	MICI, National Training Centers (CENAFORP).
<u>Housing and Town Infra-structures:</u>			
Housing	6.8	To provide financing for homes and housing improvement for about 2,200 families in the selected communities. Six types of homes were contemplated. Most funds are made available through a separate AID Housing Investment Guaranty.	Ministry of Housing (MIVI), National Mortgage Bank (BHN).
Transport Terminals	3.3	To finance construction of transportation terminals, through subloans to municipalities. The subloans are not expected to exceed \$1.0 million and COFINA will administer them.	Ministry of Government and Justice. Ministry of Public Works (MOP) participates.
Sewerage Systems	3.7	To finance, with counterpart funds, the construction of sewerage systems in at least two municipalities in the project area. The two municipalities are Penonome and Puerto Armuellas.	National Institute for Water and Sewerage (IDAAN).

Rural Growth and Service Centers  
Project No. 525-0185  
More Background on Activities, Purpose, Funds, and Organizations

<u>Components</u>	<u>Amount (In \$Millions)</u>	<u>Purpose</u>	<u>Participating Organizations</u>
Recreational/Cultural Activities	0.9	To construct or refurbish about 5 cultural centers and operate handicraft programs paying attention to unemployed and under-employed. Also to construct or renovate community recreation facilities, gyms, etc.	National Cultural Institute (INAC), National Sports Institute (INDE).
_____	\$28.5 =====		

Rural Growth and Service Centers  
Agreed Financial Plans of the Project  
As of June 30, 1981

<u>Productive &amp; Supporting Enterprises</u>	<u>AID Loan No. 047</u>	<u>In U.S. \$ Thousands</u>			
		<u>AID HIG Program</u>	<u>GOP</u>	<u>Municipalities &amp; Other</u>	<u>Total</u>
Small Bus. Indus.	\$,3000	-0-	\$400	\$400	\$3,800
Agro-Industrial	3,200	-0-	400	1,000	4,600
Industrial Sites	-0-	-0-	1,800	600	2,400
Training of Workers/ Small Businessmen	100	-0-	200	-0-	300
<u>Subtotal</u>	<u>6,300</u>	<u>-0-</u>	<u>2,800</u>	<u>2,000</u>	<u>11,100</u>
<u>Housing &amp; Town Infra-structures</u>					
Housing	-0-	5,400	900	500	6,800
Transport Terminals	2,500	-0-	600	200	3,300
Sewerage Systems	-0-	-0-	3,700	-0-	3,700
Recreational/Cultural Activities	-0-	-0-	900	-0-	900
<u>Subtotal</u>	<u>2,500</u>	<u>5,400</u>	<u>6,100</u>	<u>700</u>	<u>14,700</u>
<u>Institutional Development</u>					
Institutional Training	105	-0-	100	-0-	205
Technical Assistance	1,095	-0-	-0-	-0-	1,095
<u>Subtotal</u>	<u>1,200</u>	<u>-0-</u>	<u>100</u>	<u>-0-</u>	<u>1,300</u>
<u>Administrative</u>					
Admin. Expenses	-0-	-0-	1,400	-0-	1,400
<u>Subtotal</u>	<u>-0-</u>	<u>-0-</u>	<u>1,400</u>	<u>-0-</u>	<u>1,400</u>
<u>Total Project Financing</u>	<u>\$10,000</u>	<u>\$5,400</u>	<u>\$10,400</u>	<u>\$2,700</u>	<u>\$28,500</u>

Rural Growth/Service Centers  
Loan No. 525-T-047  
Financial Summary As of September 30, 1981

	<u>Obligated</u>	<u>Advances</u>	<u>Expenditures</u>	<u>Total Disbursements</u>
Institutional De- velopment: Technical Assis- tance - MIPPE	1,095,000	89,000	103,821	192,821
Training - MIPPE	105,000	229,000	92,373	121,373
Productive & Supporting Enterprises:				
Small Business Loan Fund - MICI	\$3,000,000	\$300,000	\$365,571	\$665,571
Agro-Industrial Loan Fund - COFINA	3,200,000	500,000	500,000	1,000,000
Housing & Urban Infrastructure: Transport Terminals	<u>2,500,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$10,000,000</u>	<u>\$918,000</u>	<u>\$1,061,765</u>	<u>\$1,979,765</u>

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Panama should obtain from MIPPE a technical assistance plan that will address the needs and priorities of the URBE project.

Recommendation No. 2

USAID/Panama, in conjunction with the GOP, should examine funding levels of the various project components to determine if excesses are available which can be used to increase the institutional training component.

Recommendation No. 3

USAID/Panama should review with MICI its loan processing and approval procedures and, where feasible, implement modifications which will expedite the credit review process.

Recommendation No. 4

USAID/Panama should obtain from MICI its plan for providing the personnel and transportation equipment needed to adequately supervise the credit program for small businesses under the URBE project.

Recommendation No. 5

USAID/Panama should request COFINA to submit reimbursement vouchers on a timely basis.

Recommendation No. 6

USAID/Panama should review with COFINA its loan processing and approval procedures and, where feasible, implement modifications which will expedite the credit review process.

Recommendation No. 7

USAID/Panama should obtain from the MICI its workplan and implementation schedule for the industrial parks in David and Chitre, including evidence that the budgetary support required for the completion of the facilities will be made available.

Recommendation No. 8

USAID/Panama should obtain the GOP agencies' implementing plan and for providing training needs for small businessmen and workers.

Recommendation No. 9

USAID/Panama should establish a plan of action to work closely with the GOP and local officials in developing a workable implementation plan for the construction of the transport terminals.

Recommendation No. 10

USAID/Panama, in conjunction with the MIPPE, should develop and implement the required procedures to perform annual evaluations, as well as a workplan which sets forth the baseline data and other criteria to ensure the timely completion of the in-depth study of the impact of the project.

Recommendation No. 11

USAID/Panama should assure itself that the GOP has complied with the information and markings requirement of Loan Agreement No. 525-T-047

Recommendation No. 12

USAID/Panama should request MIPPE and the Coordinating Committee to meet more frequently to ensure that implementation problems and bottlenecks are detected, coordinated and corrected in a timely manner.

Recommendation No. 13

USAID/Panama monitoring efforts should be reexamined and an action plan established to assure adequate project officer guidance, timely involvement, and reporting for more orderly implementation of this project.

LIST OF RECIPIENTS

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Mission Director, USAID/Panama	5
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Assistant Administrator - Office of Legislative Affairs	1
Office of Financial Management - (FM), AID/W	2
Directorate for Program and Management Services	1
General Counsel (GC), AID/W	1
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