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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523**

PANAMA

PROJECT PAPER

DEVELOPMENT POLICY STUDIES

AID/LAC/P-212

Project Number:525-0250

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input checked="" type="checkbox"/> A A = Add C = Change D = Delete	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTITY PANAMA	3. PROJECT NUMBER 525-0250
4. BUREAU/OFFICE LATIN AMERICA/CARIBBEAN	5. PROJECT TITLE (maximum 40 characters) DEVELOPMENT POLICY STUDIES

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 1 2 3 1 8 8	7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY <u>85</u> B. Quarter <input type="checkbox"/> C. Final FY <u>87</u>
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8. COSTS (\$000 OR EQUIVALENT \$1 = B/1.00)						
A. FUNDING SOURCE	FIRST FY <u>85</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	850	150	1,000	2,520	480	3,000
(Grant)	(850)	(150)	(1,000)	(2,520)	(480)	(3,000)
(Loan)	(-)	(-)	(-)	(-)	(-)	(-)
Other U.S.						
1.	-	-	-	-	-	-
2.	-	-	-	-	-	-
Host Country	-	245	245	-	1,000	1,000
Other Donor(s)	-	-	-	-	-	-
TOTALS	850	395	1,245	2,520	1,480	4,000

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA	701	710		-	-	1,000	-	3,000	-
(2)									
(3)									
(4)									
TOTALS						1,000	-	3,000	-

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code _____ B. Amount _____	

13. PROJECT PURPOSE (maximum 480 characters)

To assist the Government of Panama in institutionalizing an ongoing program of economic studies as the basis for formulating a progressive, comprehensive and coherent set of policies.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 0 6 8 6	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY	Signature: <i>[Signature]</i> Title: Director, USAID/Panama	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION Date Signed: MM DD YY 11 29 87
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DEVELOPMENT POLICY STUDIES

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LIST OF ACRONYMS

BID	Inter-American Development Bank
CDSS	Country Development Strategy Statement
GOP	Government of Panama
IMF	International Monetary Fund
MIPPE	Ministry of Planning and Economic Policy
OAS	Organization of American States
USAID	United States Agency for International Development

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PROJECT AUTHORIZATION

Name of Country: Panama
Name of Project: Development Policy Studies
Number of Project: 525-0250

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961 as amended, I hereby authorize the Development Policy Studies project for Panama (the "Cooperating Country") involving planned obligations of not to exceed Three Million United States Dollars (\$3,000,000) in grant funds ("Grant") over a three year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is 3 years from the date of initial obligation.

2. The project ("Project") consists of support to the Government of Panama (GOP) to: (1) carry out a program of economic studies which will serve as the basis for formulating a progressive and comprehensive set of policies designed to facilitate economic growth; and to (2) strengthen the technical capacity within the Ministry of Planning and Economic Policy for policy analysis and formulation.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services financed by A.I.D. under the Project shall have the Cooperating Country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

b. Conditions Precedent to Disbursement For Project Activities

Prior to any disbursement, or to the issuance of commitment documents under the Project Agreement to finance any Project activity, except for the contracting of technical assistance, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. a time-phased implementation plan which describes Project activities to be carried out through calendar year 1985, including a description of all policy studies to be executed and a financial plan for such Project activities.

c. Recurring Conditions Precedent to Disbursement.

Prior to any disbursement, or to the issuance of any commitment documents under the Project Agreement to finance any new Project activity each year after calendar year 1985, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(1) a time phased implementation plan which describes the Project activities to be carried out in the calendar year, including a description of all policy studies to be executed.

(2) a financial plan.

d. Covenants

The Cooperating Country shall covenant that, unless A.I.D. otherwise agrees in writing, it will:

(1) Provide adequate support and information to evaluation teams conducting evaluations of the Project during the life of the Project and at the end of the Project.

(2) Make reasonable efforts to retain personnel trained under the Project in positions related to policy formulation and management.

(3) Provide adequate office support and space throughout the life of the Project.


Mission Director
11/29/84
Date

I. SUMMARY

A. Project Summary

Faced with an extremely tight financial situation and a stagnant economy, the new government which was inaugurated on October 11, 1984 is confronted with critical choices. Fully cognizant that most of the sources of economic development of the 1960s and 1970s have reached a level of maturity which would limit growth prospects in the future, the Government of Panama (GOP) has embarked upon a program of policy reform. It is committed to renewed economic growth and employment generation through the reactivation of the private sector and greater reliance on market mechanisms. With the realization that major shifts in economic policy were necessary to rejuvenate the economy, in late 1982, the GOP requested assistance from AID to finance technical experts to perform a series of economic studies which could be used as the basis of formulating a set of new and coherent public policies. The fifteen month Economic Studies Program which began in August 1983 has already produced significant findings in areas such as the public sector debt and the fiscal deficit, the labor code and unemployment. The proposed Development Policy Studies Project will provide funding for the continuation of this important effort and go one step beyond by strengthening the in-house capability of MIPPE to perform on-going analyses and formulate policy recommendations.

Although the goals of this initial Economic Studies Program have been met to a large extent, there are several reasons to continue a flexible program of economic studies.

First, this initial studies program has identified areas requiring additional investigation as well as areas where more detailed efforts are needed to arrive at solid conclusions and recommendations. Second, the implementation of the conclusions of the on-going studies program require executive directives as well as new legislation, and their drafting will require efficient expert advice. Third, a number of policy recommendations have arisen from the commissions established by President-Elect Ardito Barletta to assist him during the transition period and many of these policy recommendations require thorough analysis. Fourth, during at least his first two years in office the President will undoubtedly be faced with unforeseen technical problems and new policy ideas all of which will require careful but rapid study. Fifth, the main objective of this initial policy studies program was to provide rapid answers to a fairly large number of policy issues. Although there was close involvement by Panamanians, there is a need to intensify and broaden the contact between the Project team and MIPPE staff as well as to lengthen the term of exposure, so that the institution itself will have enough experienced staff to be able to respond to pressing policy issues with prompt and sound advice, based on credible in depth economic analysis. This is a central objective of the proposed longer term project which will ensure a concerted effort to provide on the job training to MIPPE staff. Thus the goal of the project is to facilitate through improved policy analysis renewed economic growth with emphasis on the initiative and investment of the

private sector. The project's purpose is to carry out a program of economic studies as a basis for formulating a progressive, comprehensive and coherent set of policies, and to give on the job training to MIPPE staff. The following activities will be accomplished during the life of the project:

- 24 Studies/reports performed with the appropriate recommendations for new legislation, draft laws or budget allocation proposed.
- 40 MIPPE staff trained/participated in preparation of studies, reports, and policy papers.
- 24 Seminar/workshops held for MIPPE and other government entities.
- 12 Seminars to disseminate the results of the studies to the private sector.
- 24 Reports published.
- Continuing consultation with the GOP by long and short-term advisors.

Mechanism for the production and distribution of a quarterly economic forecast letter operational and publishing on a routine basis.

Achievement of the project's purpose or the end-of-project status will be accomplished when (1) MIPPE has established the internal technical capability to perform analysis and formulate recommendations for policy changes; (2) policy studies and quarterly economic newsletters are being published by MIPPE on a regular basis; and when (3) the conclusions of the studies are used in the definition of new policies.

B.

Summary Financial Plan
(\$000)

	<u>AID</u>	<u>GOP</u>	<u>TOTAL</u>
1. Technical Assistance	2,350	-	2,350
2. Training	230	100	330
3. Survey/Data Collection	60	25	85
4. Publications	200	50	250
5. Equipment and Supplies	60	50	110
6. Operational Expenses	-	775	775
7. Evaluation	100	-	100
	<u>3,000</u>	<u>1,000</u>	<u>4,000</u>

C. Recommendations

It is recommended that a grant be approved in the amount of \$3,000,000 to be funded incrementally over the three-year life of the project.

D. Project Design and Review Committees

1. U.S. A.I.D./Panama Project Design Committee

Office of Development Programs:	Juan A. B. Belt Joslyn Fearon Frank M. Pope
Office of Development Resources:	Susan Schaeffer
Office of Controller:	Vilma Jaén
Ministry of Planning and Economic Policy	Marco Fernandez

2. U.S. A.I.D./Panama Project Review Committee

Office of the Director:	John Lovaas Gale Rozell
Office of Development Resources:	Michael Hacker
Office of Development Programs:	Jessie Hartline
Office of Controller:	Denton Larson
Office of the Regional Legal Advisor	Annette Adams

II. BACKGROUND

A. Economic Background

The geographic location of Panama has been the key determining factor in the economic development of the nation. Since the colonial period, Panama has been externally oriented, serving as a major transshipment center for products produced outside of its borders. The Panama Canal (completed in 1914) further stimulated its role as an entrepot.

1. Economic Performance

During the 1960's Panama's GDP grew at an average annual rate of 8% in real terms. The fastest growing sectors were financial intermediation (12.9%), public utilities (12%), transport, storage and communications (11.9%), manufacturing (9.1%), and construction (9%). Agriculture, the least dynamic sector, grew at a rate of 4.1%. The principal source of investment finance was the private sector. Private sector investment grew in real terms at an annual rate of 12.5% in the period 1960-1970 and its share of GDP increased from 12% to 18%. However, the benefits of economic growth were concentrated in a relatively small segment of the population, and the social and economic infrastructure outside the metropolitan corridor remained at a relatively low level of development.

The government which came into power in 1968 introduced major social reforms while attempting to sustain the rapid GDP growth experienced during the 1960s. Health and educational services were expanded and improved, roads were built and other physical infrastructure investments were made by state entities providing electricity, telephone service, and water. Private investment was encouraged, especially in the construction and service sectors. This investment was linked to an international transportation system based on the locational advantages provided by the Panama Canal. Legislation passed in 1970 paved the way for Panama's emergence as a major international banking center. Tourism was promoted through construction of a new airport and other infrastructure, and service exports were increased through rapid expansion of an international free zone and the growth of international reinsurance activities. Between 1968 and 1973 the GDP grew at an annual rate of 7.3% and basic needs indicators began to show significant improvements, suggesting that Panama had devised a successful growth-with-equity model.

After 1973, however, a combination of external events and internal policy changes began to call into question the long-run viability of the model. Sharply rising world petroleum prices, international inflation and recession, and the Panama Canal Treaty negotiations introduced greater risk and uncertainty into economic decision-making. As a consequence of the stagnant world economy, Canal and related activities became less dynamic. Domestic actions affecting private sector confidence included increased government regulation, particularly a highly restrictive labor code and price and rent controls; the government's acquisition or creation of a number of directly productive enterprises; a rapid increase in public sector employment (75% of new jobs created); and overall policy statements perceived to be anti-private enterprise. These internal and external factors combined to produce a significant drop in private investment between 1973 and 1977, a slowing of economic growth to an annual rate of 1.9%, and high public budget deficits financed in large part by increased foreign borrowing from commercial banks.

The domestic political environment improved significantly after agreement was reached in 1977 on the terms of the Canal treaties, and it was further strengthened after the treaties were ratified. In addition, the government took steps to improve public finances by restricting current and capital expenditures, raising taxes, and halting the creation of new state enterprises. Under stabilization programs supported by the IMF, the budget deficit was reduced from 12% of the GDP in 1979 to 5% in 1980 and 1981. Private investment was encouraged through export, investment, and employment incentives, and a resurgence of regional trade. GDP increased by an annual average rate of 5.5% in the period 1977-81 but as a consequence of increased factor payments abroad and a negative terms of trade effect, national income per capita declined.

By 1982 Panama was feeling the impact of the world recession, both generally and particularly through declining tourism and Free Zone activity resulting from sharp cutbacks on the income and trade of other Latin American countries. Real private investment fell after completion of the

trans-isthmian oil pipeline in 1982. Political pressures resulted in compensating increases in public investment, much of it financed through additional external borrowing. This pushed the public sector deficit up to 11% of the GDP, nearly twice the amount stipulated under the GOP's stand-by arrangement with the IMF. This expansionary fiscal policy enabled the GDP to grow by 5.5% in 1982, offsetting the effects of world recession. Strict austerity measures, combined with a still sluggish international economy, resulted in a stagnant GDP in 1983 which increased at a rate of only 0.2%. For 1984, it is forecasted that GDP will decline by 1%.

2. Economic Policy

Panama's economic policies differ markedly between sectors. While the service sector developed with a minimum of government regulation and control there has been significant intervention in other sectors. Agricultural policy emphasized self sufficiency in basic food commodities through a pricing policy that raised the prices of deficit commodities and lowered the prices of surplus commodities, resulting in a misallocation of resources. Additionally, price policy was used to some extent as a mechanism to transfer income from urban areas to rural areas. There was increased Government intervention manifested through the establishment of government owned enterprises, such as sugar mills, large-scale commodity marketing activities, and the creation and support of agrarian reform communal farms (asentamientos). Employment in the public agriculture sector and in the government as a whole mushroomed. The Ministry of Agricultural Development (MIDA) emphasized the provision of social services and gave relatively less emphasis to promoting agricultural productivity, particularly by private farmers. In the industrial sector the policy of import substitution which began in the early 1960s was continued. Protection of domestic industries was accomplished basically through a system of import quotas, and the domestic prices of items subject to quotas were regulated through price controls administered by the Office of Price Regulation. A labor code, implemented in 1972, has increased labor costs significantly and has restricted the flexibility of management in the use of productivity incentives for labor in such areas as bonus payments. The Government attempted to reduce housing costs by establishing rent controls, and by providing loans at subsidized interest rates. As a consequence, the supply of rental housing and of private mortgage financing was restricted. Additionally, housing costs are relatively high as a consequence of protection of the domestic construction materials industry and of a construction building code which sets standards that are too high for local conditions (i.e. over design). The set of policies pursued resulted in a misallocation of resources and constrained growth in all sectors with the exception of the service sector. The need to stimulate the economy to compensate for the private sector slack, the expensive nature of many government programs, and the losses sustained by most publicly owned enterprises resulted in levels of spending which greatly exceeded revenue and which required high levels of foreign finance. In the future, economic growth in Panama will have to depend on a reactivation of the private sector that can be achieved only through the implementation of a more appropriate and coherent set of policies.

B. Project Rationale and Strategy

1. Current Economic Studies Program

a. Rationale

As economic growth approached a total standstill in 1982 and it became clear that prospects for future economic growth were to get worse before they would get better, President de la Espriella requested assistance from AID Administrator, Peter McFerson, to finance technical advisors to perform economic studies which would be used as the basis for reordering Panama's economy. The necessity for the studies program as well as for the foreign technical assistance to perform the studies was clearly laid out in two consultants' reports which presented the rationale and the framework for the Economic Studies Program. Dr. Larry Sjaastad states in his report ^{1/} the following:

"If there is to be a major shift in policy in Panama, a great deal more information must be developed than is currently available. The logical place for that activity is the Ministry of Planning and Economic Policy. Unfortunately, that Ministry has deteriorated to the point where currently it simply cannot be expected to provide the analytical basis for policy evaluation. For the longer run, that defect can be remedied only by developing the human capital necessary to do the job, but that will take years. In the short run, there seems to be no alternative but use of outside talent to undertake the necessary studies and evaluations of current policy, while the Panamanian talent develops and participates."

- 1) Short-term Objective

In order to make the sound policy changes which are necessary to reactivate the Panamanian economy, and due to the dearth of dependable information, it was determined that relevant economic data had to be accumulated and analyzed.

Further, it was important that the studies not only include diagnosis and analysis but also an orientation toward policy implementation. In this regard, timing was critical. As indicated above in the economic background (Section II A.), Panama was at a critical juncture and serious decisions had to be taken within a relatively short period. Continuation of enormous public sector investments and the accompanying growth in external debt

^{1/} Larry A. Sjaastad: Report to USAID Panama on Technical Assistance to Ministry of Planning and Economic Policy, April 1983.

which characterized economic policy for the past decade and a half was no longer tenable. The GOP embarked upon a program of policy reform which emphasizes the reactivation of the private sector with special attention to export activities and greater reliance on market mechanisms as the basis for economic renewal. The problem being, as stated in the Cortes and Wisecarver report ^{2/}, that the past decade of economic policy has effectively constructed a series of obstacles which all work against private sector activities in general, and private, non-traditional exports in particular. Thus, based on rather extensive investigations by expert economists, a scope of work for a technical assistance team and an outline for the studies (with accompanying issues) which would be necessary to provide the basis for informed policy alternatives was drafted.

It should also be noted that the commencement of the studies program occurred not only at a critical juncture vis-a-vis the economy but also at a political crossroad. The economic studies program was designed to provide well thought out policy alternatives and their implications for crucial policy considerations which the new government would be immediately confronted with when it was inaugurated on October 11, 1984. (See Section II B.2 a.) for more information in this regard).

2. Long-Term Objective

In each of the consultancies carried out prior to the beginning of the Economic Studies Program, it was stated that MIPPE lacked the qualified mid-level professional personnel required to perform the studies. The recognition of this problem prompted MIPPE to promote a fellowship program in economics and business for which 22 candidates were selected to attend Masters or Ph.D. programs in the United States. Funding for these studies is being provided under the LAC Training Initiative Project (598-0622) which makes available US\$700,000 in AID grant funds and US\$300,000 in counterpart contribution for the scholarship program. In order to strengthen the study capability of MIPPE as part of the Economic Studies Program, MIPPE agreed to house a resident team of professionals (PH.D.s, PH.D. candidates or M.A. in economics or business

^{2/} Hernán Cortés Douglas and Daniel Wisecarver: Second Report to USAID Panama on a Program of Technical Assistance to the Ministry of Planning and Economic Policy, June 1983.

administration). The purpose of having a team such as this on board throughout the term of the program was not only to perform the studies but to provide direction to those staff members of MIPPE who have the proper educational training to do policy analysis but who require guidance due to insufficient practical experience. Thus a longer-term objective of the Economic Studies Program was to help strengthen the in-house capability to do policy analysis on an on-going basis.

b. Description of Economic Studies Program

The objective of the present Economic Studies Program has been to assist the Panamanian Government in carrying out an extensive program of policy-oriented economic studies as the basis for a comprehensive, planned and progressive revision of government policies and measures designed to facilitate renewed economic growth. The areas under study include: commercial policy; public pricing policy; labor market policy; foreign debt and general economic legislation. The activity which began in September, 1983 is being financed with AID Program Development and Support (PD & S) funds totalling \$841,000. All of the technical assistance (6 long term advisors and 25 person months of short term assistance) is being provided under a contract with Servicios Técnicos del Caribe. Under the current contract, the assistance will terminate December 31, 1984.

To date, 10 studies have been performed. A brief discussion of the results of some of these studies and the impact which these studies have already had is presented below.

1) Findings to date ^{3/}

Public Sector Debt and the Fiscal Deficit

Although Panama's debt problem was included in the original design of the AID studies program, it was implicitly relegated to a secondary level of importance, relative to some of the other topics. The findings of subsequent research show unequivocally that such secondary emphasis was grossly mistaken. For the immediately foreseeable future, managing and controlling the public debt will dominate all other aspects of economic policy as well as, perhaps, the future growth of the entire economy.

The study of Panama's public debt was performed by Dr. Nasser Saidi and his conclusions and projections are sobering, if not alarming. First, Panama has become one of the world's foremost debtors; in 1982, Panama paid a higher fraction of GDP for debt service than any other country in the world. Servicing the debt has required more than half of the

^{3/} The following information is an abstract taken from Daniel L. Wisecarver's Second Progress Report of the MIPPE/USAID Economic Studies Program.

central government's total revenues during the past three years. Second, Panama's public debt problem cannot be attributed to exogenous, external factors, but rather is the straightforward outcome of 16 years of rapidly expanding fiscal expenditures, increasingly unmatched by fiscal revenues. Hence, any fundamental improvement in the debt situation will require very difficult, but clearly indispensable, reforms of past fiscal habits. Third, based on time series analyses of the determinants of the paths of Panamanian GDP and fiscal revenues, it was possible to project maximal levels of new debt and of total central government spending, subject to the criterion that the ratio of external debt to fiscal revenue be maintained constant. Adhering to this "restraint", it should be noted, would do nothing to resolve the existing stock-of-debt problem, but rather would only assure that the debt be kept within manageable proportions. Even under this limited criterion, and with optimistic projections of GDP and fiscal revenues, the central government would have had to reduce total spending relative to average spending in 1981, 1982, and 1983, and only in 1990 could real spending return to the base period levels. Less optimistic projections of economic growth, of course, lead to the necessity of more drastic spending cuts.

Using the same techniques, but applying the alternative debt criterion of holding the fiscal deficit to "just" 5.5% of GDP (as is called for in the latest agreement with the IMF), leads to the same orders of magnitude for prescribed reductions in fiscal spending. In short, Panama must take decisive steps, and quickly, in order to avoid even more serious problems with the external debt, up to and including the not excessively remote possibility of default.

Employment and Economic Growth in the Decade of the Seventies

Dr. Pedro Pou, in Panama from early January through early March, produced a major study which documents Panama's performance with respect to employment and its measured sources of economic growth throughout the 1970's. With respect to employment, the data indicate that the measured unemployment rate had remained roughly constant in spite of the facts that (a) the annual rate of growth of the population of working age was higher in the 70s than in the 60s, and (b) the rate of new job creation was lower (almost by half) in the 70s than in the 60s. The explanation is found in a major decrease in the labor-force participation rate, of 6 percent between 1970 and 1980. The latter, in turn, was the direct result of government policies which increased the coverage and time period of schooling and reduced the retirement age. Hence, virtually all of the decrease in the participation rate occurs for those between 15 and 25 years of age and for those 55 and over. The participation rate between 25 and 55 years was basically unchanged.

Over the decade of the 70s, 83,800 new jobs were created, 61,600 in the public sector, 22,200 in the private sector, so that public-sector, direct employment increased from 13% of total employment in 1970 to almost 24% in 1980. The annual rate of new jobs created, which had been 3.4% in the 1960s, fell to 1.8% in the 70s. Just to maintain the current

unemployment rate, however, the economy will have to return to rates of employment creation of more than 3% per year in the 1980s. Thus, even measured, open unemployment (without considering any of the alternative measures of disguised unemployment), has the potential to become a major problem in the short run.

The reduced rate of employment creation, on the other hand, cannot be attributed to a lack of aggregate investment, which grew much faster in the 70s than in the 60s. In fact, one of the possible explanations that Pou suggests for the relatively poor performance of the economy in creating new jobs is that the incremental capital-labor ratio grew too much, four to five times over the 70s, such that by 1979 a new job carried an investment "price" of approximately \$65,000 at 1984 prices.

Turning to the results of the analysis of the sources of Panama's economic growth over the decade of the 1970s, Pou finds that the capital accumulated and the new labor employed ("labor" being adjusted for education and location) should have resulted in a level of GDP in 1980 between 35% and 50% higher than was officially recorded. Thus, in the terminology of the literature on the "accounting" approach to explaining historical patterns of economic growth, the "residual" in Panama, namely, the growth of GDP not accounted for by the use of labor and capital was large and negative during the 1970's. The bulk of the explanation for this bleak and uniquely regrettable performance is apparently to be found in a dramatic decrease in overall economic efficiency, probably attributable to such factors as Panama's labor code, price fixing, and other forms of direct government intervention such as unwise investment decisions which may have been based on erroneous projections of relative prices.

As part of his research on the effects of Panama's labor code, Dr. Dean Spinanger prepared a detailed survey that was sent to 200 Panamanian employers in an attempt to generate direct, quantitative information as to the manners in which the code was affecting employment costs and practices. The amount of cooperation and response was 25-30%. In trying to codify the limited information that had been submitted, it appears that more information than was originally expected was garnered from the surveys. Spinanger was able to compile a computer tape which will be utilized at the Kiel Institute in the preparation of his final report, along with information on the behavior of wages and the results of labor-court cases that was compiled by Dr. Spinanger's research staff.

Meantime, direct, econometric tests of the hypothesis that the labor code has been responsible for at least a part of the overall decrease in the productivity of the Panamanian economy have been conducted. Preliminary results are emerging which, if corroborated, strongly confirm this hypothesis. From regressions which are completely consistent with Pedro Pou's findings, it would appear possible to conclude that, in Panama's industrial sector, overall productivity fell by 10-12% with the introduction of the new labor code in 1972, and has continued to fall at an annual rate of 1%.

The Financial Performance of Public Enterprises

Javier Barrios and Pedro Videla prepared a first-round document on the reported financial performance of a selected group of Panama's most important state enterprises, including CALV (sugar), Cemento Bayano, the Colón Free Zone, the Port Authority, the Civil Aeronautics Board, INTEL (telecommunications), IRHE (electricity) and IDAAN (water). Although this report must be taken as preliminary, it does draw together basic data on the growth of employment, debt and capital, and losses (both operating and financial) of many of these entities. It is planned that this work will be expanded and refined.

Panama's Banking/Financial Center

During the first stages of the Studies Program, the importance of the exports of services for the Panamanian economy became overwhelmingly clear. At the same time, the lack of financial-market activities, in spite of the presence of more than 130 banks in Panama, emerged as a major puzzle. As a result, it was decided to undertake an additional study which would try to determine the potential for the deepening of financial services within Panama's banking sector, with perhaps special emphasis on directions for expanded services exports. Dr. Donald Lessard, professor at MIT, along with Dr. Adrian Tschoegl of the University of Michigan, interviewed officials in eight banks operating in Panama, as well as officials of MIPPE and the Banking Commission. Further, Lessard attended a meeting with Panama's President-Elect and bankers in New York at the end of July.

The first draft of the paper arrived in mid-September. It is a very important and useful contribution, but since it is quite long, only certain aspects can be touched upon briefly here. The authors first summarize the fantastic growth of international banking through 1981, and its subsequent levelling off. They also note the fundamental fact that Panama is almost exclusively a banking center, as few if any related financial services are offered. The characteristics of the center specific to Panama, linkages with other such centers, and factors which affect Panama's competitiveness as a center are all described in some detail. The most important factors favoring Panama are the (effective) dollar standard, Panama's attractive tax advantages, bank secrecy, and, in general, a relatively "hassle-free" regulatory environment. On the other hand, recent difficulties can be attributed to the crises in the general Latin American region, some decrease in physical accessibility to Panama (fewer flights), a lack of development in telecommunications, competition from new centers (notably Miami), and certain potential problems with Panama's image.

Another section of the paper deals with the contributions of the banking center to the Panamanian economy. These include employment (although much less than widely believed), tax revenues, multiplier effects of bank expenditure, and human capital formation. Harder to define, but probably

more important, are the indirect benefits of improved operating and allocative efficiency in utilizing financial resources, and enhanced availability of funds to both the public and the private sectors, and the potential for facilitating a wide range of trading activities in the rest of the economy.

The final section of the paper makes suggestions for steps that can be taken to strengthen current banking sector activities and to promote expansion into new, financial services. In general terms, six suggestion areas are discussed in detail:

1. Improving bank regulation.
 - Make the Banking Commission more politically and financially independent
 - Bring banking laws up to date
 - Establish closer contacts with foreign banking authorities
 - Clarify the government's role in cases of potential intervention.
2. Resolve Panama's fiscal and external debt situation.
 - This is very important because if Panama were to find itself forced into renegotiation, or even to default, the existing banks could get nervous enough to leave the country.
3. Streamline Panama's fiscal system to increase (efficiently) the net fiscal gain from international banking activities.
4. Enhance delivery of domestic financial services.
 - Equalize tax treatment of offshore and domestic deposits.
 - Eliminate (gradually) interest rate ceilings on small savings accounts.
5. Broaden the scope of international banking activities.
6. Exploit the banking center as a base for industrial and trade activities.

Lessard made a second trip to Panama during the first week of October, when he interviewed three more local bankers. He also gave a seminar for the bankers he had interviewed on his first visit. The talk (and paper) was enthusiastically received, so much so that the Panamanian Banking Association insisted that Lessard repeat the presentation to the members of the Association.

Both seminars brought out a number of useful comments which Lessard and Tschoegl are incorporating into what will be the final draft of this paper. It is expected by the first of November.

The Necessity for International Adjustment

At the express request of President Ardito, Prof. Arnold C. Harberger came to Panama to participate in the studies program during the last

two weeks of September. Although it was suggested that he look at the current fiscal situation and, perhaps, certain aspects of potential economic legislation, Harberger quickly found an important, closely related and apparently unrecognized problem that should be addressed and considered by Panamanian authorities: the need for international adjustment. In his carefully didactic paper "Panama's Fiscal and International Debt Crises: One Problem or Two?," Harberger relied upon simple graphical analysis and on international empirical comparisons to demonstrate that, in the face of net capital outflows for the immediate future, Panama's "real exchange rate" must rise.

In a country with no central bank and virtually no currency of its own, it may at first appear strange to speak of Panama's real exchange rate; nevertheless, the underlying concept, i.e., the relative price of tradable to non-tradable goods clearly does apply, and an index of the real exchange rate can be closely approximated by the US WPI divided by an index of Panamanian wages. Harberger first shows the theoretical workings of the model. When a country receives net capital inflows and spends at least a fraction on non-tradables, the price of the latter is driven up and, with a fixed nominal exchange rate, the real exchange rate is reduced. This is clearly what was occurring in Panama during the 1970's and early 1980's. On the other hand, a reversal of capital flows (as Panama now faces) creates the opposite pressures and for the economy to adjust, the prices of non-tradables (i.e., wages) must fall.

Harberger then shows how the predictions of this model in other debt-crisis countries have in fact come to pass. There is no reason to expect Panama to be different. Hence, the paper concludes, Panama will be forced to practice great wage restraint in the coming few years; in fact, the net capital outflows may require wage reductions of 5%, 10% or more as the adjustment response to projected, net capital outflows. The alternative to wage restraint is a significant decrease in national output and a corresponding increase in unemployment.

Among other conclusions, of course, it is obvious that the recent wage increases granted to important segments of Panama's public sector run directly counter to what is required for the economy as a whole.

2) Impact to-date

The conclusions of some of the studies already are having an impact on policy decisions. The public debt and its fiscal implications are well known problems in Panama but up to now policy makers have approached it with a short-run planning horizon, i.e. where can finance be obtained next year. Dr. Saidi's paper has helped to change the planning horizon and may have provided an important argument for those who support divestiture and reduced government employment. Dr. Lessard's study of the banking center was very well received and President Ardito Barletta requested that Dr. Lessard accompany him to New York in July 1984 when he held discussions with Panama's commercial bankers, where one of the topics treated

was the ways in which the international banking center in Panama can be made more attractive to foreign banks, particularly for expanded activities such as trust management.

2. Development Policy Studies Project

The Economic Studies Program is scheduled to terminate December 31, 1984. Although the goals of this initial activity have been met to a large extent, there are several reasons to continue a flexible program of economic studies. First, this initial studies program has identified areas requiring additional investigation as well as areas where more detailed efforts are needed to arrive at solid conclusions and recommendations. Second, the implementation of the conclusions of the on-going studies program require executive directives as well as new legislation, and their drafting will be most efficient if expert advice were available. Third, a number of policy recommendations have arisen from the task forces established by President-Elect Ardito Barletta to assist him during the transition period and a number of these policy recommendations require thorough analysis. Fourth, during at least his first two years in office the President will undoubtedly be faced with unforeseen technical problems and new policy ideas all of which will require careful but rapid study. Fifth, the main objective of this initial policy studies program was to provide rapid answers to a fairly large number of broad policy issues. Although there was close involvement by Panamanians, there is still a need to improve the capability of the staff of the Ministry of Planning (MIPPE) to carry out in depth economic analysis on a continuing basis as well as to respond with prompt and sound advice on pressing policy issues. The Development Policy Studies Project will focus more on specific sub-sectoral policies and therefore draw a much larger group of staff technicians from the different Directorates of MIPPE with a wider range of skills into the study teams. This on-the-job training will be complemented by seminars and workshops to further strengthen the technical skills and raise the self confidence of the MIPPE staff. With this longer term project, these higher levels of professionalism can generate new pride and initiative amongst support staff, and consequently build the necessary impetus for an overall improvement in the quality and quantity of work done in the Ministry.

During President Nicolas Ardito Barletta's meeting with AID Administrator McPherson on July 27, 1984, Mr. Barletta emphasized the important contribution which the Economic Studies Program had already made in providing him with the analytical basis for policy reform proposals. Further, he requested additional funding for the continuation of the program to which Mr. McPherson responded favorably. The economic and project rationale for the continuation of the Economic Studies Program parallels that presented above. The economic rationale for the Development Policy Studies Project has only taken on greater import as the state of the economy continues to deteriorate, and the need to develop the domestic capacity to formulate and manage the implementation of policy reform to reverse that trend becomes critical. The economic imperative as well as a further elaboration for the new areas of emphasis for the Development Policy Studies is presented below.

a. Economic Rationale

The new government that was inaugurated on October 11, 1984 finds itself facing a series of economic problems serious enough to be labeled a general crisis. The dominant factor is a staggering public-sector debt caused by a fiscal system which for the past few years cannot be characterized as having been under strict control. This debt must be met with an about-face, from past fiscal largesse to genuine fiscal austerity. Such an abrupt change in policy would be painful in any circumstances, but in Panama in 1984 it must be superimposed on a stagnant economy, one which has seen even officially measured per capita national income fall from 1978 through 1984. Moreover, although measured unemployment has been held in check, the fiscal and political artifices that have been relied upon to do so in the past have run their course and cannot realistically be called upon again. Hence, the new government may well be greeted by the explosive emergence of what has to date been only a latent unemployment problem. In short, it will be the new government that will have to pay the bill for 15 years of economic policies which provided social services but failed to set the basis for sustained economic growth. At the same time, the government will have to formulate the new strategy that will be necessary in order to reactivate the Panamanian economy.

The underlying basis of that new strategy will of course have to deal with the sort of long-run phenomena that have occupied the efforts of the first AID Economic Studies Program, including debt and fiscal policy, commercial policy, issues surrounding the labor code and social security, potential improvements and deepening of the banking sector, the role and performance of state enterprises, etc. However, regardless of the decisions taken on these issues, subsequent results will not appear immediately. In the meantime, the new government will have to survive the consequences of the economic crisis that is now arising. For that reason, short run measures are of paramount importance, and a second studies program, to be useful, would have to have this same, short-run orientation for at least the first year of the program. At the same time, of course, the research program would also continue to emphasize long-run issues and potential solutions, first by attempting to assure that short-run measures suggested be consistent with the long-run strategy of the new government, and second by maintaining a series of on-going, longer-run studies.

Several specific and illustrative topics requiring investigation are listed under the Project Description Section III.C1.

b. Project Components Rationale and Strategy

As indicated above and in other sections of this Paper, the current Economic Studies Program has only begun to skim the surface of the topics which need to be investigated. While the case for the need of data accumulation, analysis and policy recommendation as a basis for formulating a new set of coherent policies to reactivate the Panamanian economy has clearly been made, the need to rebuild MIPPE's in-house capabilities so as to perform

these functions must be addressed. Although the current Economic Studies Program saw the institutional strengthening of MIPPE as an implicit objective of the program, due to a variety of factors--especially time constraints, this has largely been put on the back burner with only three mid-level MIPPE employees having been deeply involved in the studies program to-date.

Thus, an important component of the Development Policy Studies Project will be the strengthening of the capability of MIPPE personnel to gather and analyze data and to formulate various policy alternatives by providing on-the-job training for MIPPE staff. As mentioned above in the rationale section for the Economic Studies Program, MIPPE has a rather large cadre of young professional trained abroad (most at the M.A. level and some Ph.D's) in economics and business administration. In addition, during the period of the Development Policy Studies a total of 22 MIPPE employees (7 in 1985, 11 in 1986 and 4 in 1987) will be returning from graduate studies in economics and business administration.^{5/} Rather than the lack of analytical capability, what appears to be missing within MIPPE is guidance and experience in bridging formal training with application. Thus, under the Development Policy Studies it will be standard operating procedure for MIPPE personnel from all Directorates to participate in the studies, as well as to attend and present locally held seminars and workshops. (See Project Description, Section III.C2). This model was very successful in the 1970's in developing a cadre of extremely well qualified individuals which produced at least three cabinet ministers, top executives in commercial banks, and high government officials.

To date under the Economic Studies Program, although a number of studies have been completed containing important implications for a variety of sectors, the results have not yet been published. Therefore, the Development Policy Studies Project will provide funding for two critical next steps. First, in order to have the greatest impact, all of the studies completed under the Economic Studies Program and the Development Policy Studies will eventually have to be published and distributed. Second, specific policy recommendations will be proposed, based on the completed studies and, to a certain extent, on the reactions and suggestions that may arise from those who have access to these publications. One task will be to formulate a summary document which can serve as a detailed diagnosis of the existing economic situation in Panama and as an initial set of recommendations for policy directions for consideration by the incoming government. A second task will be to formulate specific recommendations based on requests by GOP officials which will probably take the form of short memoranda from the studies group. Taking all of the above factors together, to continue, as well as to go beyond the parameters of the Economic Studies Program is of critical

^{5/} Funded under LAC Training Initiatives Project

importance to the new President. The results of the studies to date have been well received but more needs to be done. More information not only needs to be gathered and analyzed but presented with an orientation toward policy implementation. Results must be distributed to the widest audience possible and the capability to perform these functions must be institutionalized within MIPPE. The description of the Development Policy Studies Project in Section III will outline in detail how these objectives will be met.

C. Relationship to Country Development Strategy Statement (CDSS)

The Development Policy Studies Project is directly related to the overall Mission CDSS and to other AID supported activities. A key objective of the CDSS is to encourage and support GOP efforts in a redirection of current interventionist economic policies toward greater reliance on market forces and strong support for the private sector. Recommendations resulting from the series of studies to be financed with Project resources will form the basis for a continuing policy dialogue with GOP decision makers.

The Project will have a positive influence on the implementation and direction of ongoing and planned USAID projects, as well. As part of its efforts to encourage policy and related institutional reforms, USAID is also supporting the following efforts, (a) the Agricultural Policy Formulation and Management Project (525-0242), a program designed to assist the Ministry of Agricultural Development in improving its capability to analyze, design, and implement sound, coherent agricultural policies and to improve its capability to manage and coordinate programs and projects aimed at increasing overall agricultural production and efficiency; (b) the Investment Council of Panama (525-0239) which in addition to assisting in the development of the Council's capacity to promote and service new export-oriented foreign and domestic investment, will also identify related policy issues, commission policy analyses and make recommendations for appropriate policy reforms; and, (c) the Shelter and Urban Development Project 525-0252, will provide support to GOP for the development of coherent shelter and urban development policy.

D. Relationship to Other Donor Activities

The current Economic Studies Program has been linked closely with the activities of other donors, particularly the World Bank. The original definition of the program contained ideas for several studies (e.g. agricultural pricing and institutions, effective industrial protection, and the Social Security Agency) which were financed by the World Bank under its Technical Assistance Loan (TAL). Staff from the AID-financed studies program have served as a mechanism to assure the consistency of the recommendations of studies financed not only by the World Bank but also by the Inter-American Development Bank (IDB) and the Organization of American States (OAS). The coordinating team financed by USAID also has had the responsibility of advising the Minister of MIPPE on the technical merits of the reports prepared under the TAL studies program, and a similar kind of function will be performed in the future.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The goal of the project is to facilitate renewed economic growth with emphasis on the initiative and investment of the private sector. The project's purpose is to carry out a program of economic studies that will provide the basis for formulating a progressive, comprehensive and coherent set of policies, and by actively including MIPPE staff in all aspects of the work, create a group of experienced and motivated professionals who will form a core of technicians who will set the standards and provide the initiative for economic policy development after the project ends.

B. Outputs and End-of-Project Status

- The following outputs will result from the project:
 - 24 studies/reports performed with corresponding recommendations for new legislation, draft laws or budget allocation proposed.
 - 40 MIPPE staff trained/participated in preparation of studies.
 - 24 Seminars/workshops held for MIPPE and appropriate GOP officials.
 - 12 Seminars/workshops with private sector and press to explain studies, and build consensus for new policy directions.
 - 24 Reports published.
 - Continuing consultation with the GOP by long- and short-term advisors.
 - -- Mechanism for on-going accumulation and analysis of economic data and quarterly economic forecast letter routinely published and distributed.

Achievement of the project's purpose or the end-of-project status will be as follows:

- MIPPE has established the internal technical capability to perform analysis and to formulate recommendations for policy changes.
- Policy studies and quarterly economic newsletters are being published regularly.
- Policy studies distributed and widely discussed leading to increased understanding of issues and wider acceptance of policy reforms.
- The conclusions of the studies are used in the design of new economic policies, and those policies are implemented.

C. Project Components

The project will be run administratively and operationally as the current Economic Studies Program. The selection of the studies to be undertaken will be the responsibility of the Program Director, the Technical Director and the MIPPE Project Manager. AID will be consulted and its concurrence will be required. Seven long-term personnel and 60 person months of short term technical assistance will be contracted over the life of the project to carry out studies and to consult with the GOP. The primary

responsibilities of the key personnel are as follows:

Program Director: (36 months)

- directs the work of other long and short-term personnel under the project
- participates with the Technical Director and other MIPPE personnel in defining the nature and the scope of the economic studies to be carried out
- coordinates the different components of the program in consultation with MIPPE Project Manager (The Chief of the Technical Assistance Program Office), other MIPPE officials and personnel who will be provided for the program by other agencies
- consults with the GOP on economic policy matters
- determines requirements for short-term personnel under the contract, including qualifications as well as timing and duration of services
- reviews all reports generated by the project before publication
- presents the findings of the studies to public and private sector groups as requested by MIPPE in consultation with MIPPE Project Manager
- manages programming of seminars and workshops in conjunction with MIPPE Project Manager
- submits progress and final reports to MIPPE officials and USAID/PANAMA
- responsible for all expenditures for activities carried out under the Development Policy Studies Project funding.

Technical Director (36 months)

- participates with the Program Director, MIPPE Project Manager and other MIPPE officials in defining the nature and the scope of the economic studies to be carried out
- coordinates the different components of the project in conjunction with the Program Director and MIPPE Project Manager
- designs and conducts such specific studies as may lie within his/her particular competency
- consults with the GOP on economic policy matters
- assists Program Director in determining requirements for short-term personnel, including qualifications, timing and duration of services
- assists the Program Director in identifying candidates for specific tasks.
- maintains close contact with specialists and technicians of other GOP and international agencies providing technical assistance in areas related and complementary to the Economic Studies under the project.

Three long-term Consultants (Junior Economists) (108 months)

Function as line managers in charge of specific studies or tasks as assigned by the Program Director. Specific duties include:

- development of project teams for specific studies or tasks as assigned by the Project Director. This includes identification of appropriate consultants and MIPPE personnel, management of the selection process, and administrative arrangement for the contracting or temporary assignment of selected personnel
- management of all aspects of study preparation, editing, and production of final documents under the guidance of the Technical Director
- liason between study team personnel and cooperating public and private sector institutions and individuals
- consults with the GOP on economic policy matters
- management of financial and administrative records related to specific studies in cooperation with the Administrative Assistant.

Systems Analyst (36 months)

The primary task of the Systems Analyst is to act as the inter-face between the Development Policy Studies group and the several data processing centers which will provide data to the Project and MIPPE. Specific tasks include:

- identify, make formal contact and arrange cooperation with the various public and private sources of data available and pertinent to the Development Policy Studies Project
- assist the project staff in the selection of appropriate data sources for individual studies and arrange for the timely collection of the same
- compile technical information on each data source including hardware, software, and point of origin and methodologies for raw data collection
- coordinate closely with the Comptroller General's office and assist in strengthening and improving their capability to compile, consolidate and publish data regarding its official accounts in a timely manner, and to foment the growth of cooperative ties between the two agencies (MIPPE-Contraloria)
- in close conjunction with the Comptroller General's office, design standard basic guidelines for data collection and management for all GOP institutions
- in close cooperation with the Comptroller General's office, design and conduct seminars and workshops for GOP personnel involved in data collection and management. These activities will be used to explain, the Development Policy Studies Project and emphasize the participant's critical role in the total process of economic analysis as well as to put forth the jointly developed standard guidelines and offer help in problem solving
- submit regular written reports to the Program Director on problem areas and recommendations for resolution of the same
- manage all data processing activities carried out by the Development Policy Studies Project

- manage all financial and administrative documents related to automated data processing funded under the Project.

Administrative Assistant (36 months)

Since the Development Policy Studies Project requires the prompt enlistment of cooperation from various directorates of MIPPE and other government offices on a number of sensitive issues, a careful and formal management of these cross chain-of-command relationships must be established. The Administrative Assistant will:

- in conjunction with the MIPPE Project Manager or assigned counterpart, manage all correspondence and document flow between the Development Policy Studies group and outside offices and agencies
- in conjunction with the staff Junior Economists manage the flow of documents generated by the Project and ensure the efficient and secure storage of the same
- in conjunction with the MIPPE Project Manager's office, manage all of the financial and administrative documents relative to project expenses
- provide day-to-day operational and administrative support to the Project team and the short term consultants
- assist in the preparation of implementation plans, financial plans, and other documentation regarding project implementation

The MIPPE Project Manager will be the Chief of the Technical Assistance Program Office. The MIPPE Project Manager in conjunction with the Program Director and Technical Director will coordinate and manage project activities as described below:

1. New Areas of Investigation

One of the important results of the current Economic Studies Program has been the identification of several new areas/topics for investigation. Whereas it is impossible to give a comprehensive list of studies that will be performed, the following list provides an illustrative sample of short-term research topics and long-term policy studies which will be investigated during the life of the project. The method for selecting which study will be performed, by whom, when, etc. is described in the Project Description. It should be emphasized again that, especially for the short-run issues, the studies envisioned must include not only diagnosis and analysis but also an orientation toward policy implementation.

a. Short-term Studies

(1) Reactivation of Tourism. Given the ample and extensive infrastructure that already exists, the steps which must be taken to help tourism resume its past importance as a dynamic source of economic activity in Panama need to be articulated.

(2) Channeling immobilized funds into specific forms of finance. Panama's labor code requires the maintenance of a severance payment fund for each employee that is proportional to his length of service with the firm. This fund (kept as a reserve by the employer) is available to the worker only upon termination of his employment. It has been proposed that these reserves be channeled into a general fund and that the worker, for certain specific expenditures such as housing, be given access to his own, personalized account within the new fund, without having first to sever his ties with the employer. It is urgent to study the mechanisms, both legal and financial, necessary to release this fund and the institutional and organizational alternatives for managing this money. Also the impact on the employers overall liquidity must be analyzed.

(3) Relative Costs and Prices. Since a major thrust of new economic policy will undoubtedly entail the continued attempt to increase exports, it would be critically useful to determine Panama's competitiveness in world markets, especially relative to Central American and Caribbean countries. The idea is to make a quick, comparative study, trying to detect cost items that work against Panamanian producers and which might be subject to policy treatment.

b. Long-Term Studies/Policy Papers

(1) Housing

- (a) Review laws, regulations and problems of market structure that affect and characterize construction;
- (b) Evaluate effects of current interest-rate ceilings on small savings accounts;
- (c) Analyze, delimit and define the scopes of activity for the Ministry of Housing, the National Mortgage Bank, and other, related public-sector entities;
- (d) Explore alternative ways for improving the financing capabilities for housing within the Panamanian market. For example, what would be needed in order to establish a functioning, secondary market for mortgage securities?
- (e) Examine the impact of high tariff protection for domestically produced construction materials on housing costs.

(2) Fiscal Policies and Government Accounting Systems

(a) Study the feasibility of implementing standard system for accounting, budgeting and control of spending and revenue collecting functions of the central government and all of the decentralized public-sector entities.

(b) Study different models for creation of a national rate fixing board for public-utilities especially for electricity, telecommunications, water and sewerage.

(c) Study the current procedures and methodologies for the divestiture of public enterprises and sale of other publicly-owned properties.

(d) Prepare a summary of the recently completed voluminous study of the Panamanian tax system that may be used as the basis for formulation of a tax reform strategy consistent with other GOP policy initiatives.

(3) Conduct a technical-administrative evaluation of the National Telephone Company(INTEL), National Water and Sewer Authority (IDAAN), and the National Port Authority.

(4) Organizational/Legal/Physical problems in land transportation, especially intraregional.

(5) Fossil fuel policies: pricing, taxes, the refinery, the San José Oil Agreement.

(6) Stock Market Potential: The feasibility of establishing an exchange for Panamanian and offshore securities. The potential for a stock and bond market in Panama for the regional (Central American) market.

(7) Investment: A detailed analysis of investment in Panama over the past 10-20 years. Public vs. private, composition of both, relative returns, etc.

c. Consultation with the GOP

An important component of the project is the provision of consultancy services to the GOP by the long- and short-term advisors. This activity has been an important component of the current Economic Studies Program, and it will continue under the proposed Development Policy Studies Project. It is expected that there will be a demand for these services as the

President and other policy makers will undoubtedly be faced with unforeseen technical problems and new policy ideas, all of which will require expert consultation.

Another important link of the current Economic Studies Program and the proposed project is the need to take the results of the study one step further and recommend policy changes. Recommendations from studies already completed will be compiled in a summary document which can serve as a detailed diagnosis of the existing economic situation in Panama and as an initial guide for policy directions for the incoming government. As studies are completed under the proposed project, the form of recommendations will depend on the nature of the problem and circumstances. They are likely to appear in short memoranda from the study teams to the Minister of MIPPE or the President.

2. Strengthening and Institutionalizing Technical Capability to Perform Policy Analysis and Formulation.

Equal to the importance of the information gathered and recommendations proposed is the system and technical skills available to perform such activities. Therefore a crucial element of the project is to strengthen and institutionalize the technical capability within MIPPE to perform policy analysis and formulation. This will occur by the participation of MIPPE personnel in two sets of activities.

a. Study Teams

Upon the selection of a topic and technical expert for a short-term study or long term policy paper, the projects' technical coordinator or program coordinator will select, with the concurrence of the Minister, at least two MIPPE personnel to assist the technical expert in every phase of the study. MIPPE personnel will be selected on the basis of their interests and academic background. They will be given leave of their current responsibilities in order to devote themselves full time to the designated study. The purpose of the incorporation of MIPPE personnel as members of study teams is threefold 1) to provide on-the-job training and practical experience in gathering information, analysis and policy formulation; 2) to provide technical training in a specialized field; and 3) to insure that an in-house capability within MIPPE is established to carry out whatever next steps are warranted after the departure of the foreign technical expert including the dissemination of the results of the study both within MIPPE and to other relevant public or private sector parties.

b. Seminars/Workshops

For each of the studies to be carried out under the Development Policy Studies Project seminars will be conducted for relevant MIPPE personnel and other government entities, including the legislature and members of the public at large. Some seminars may take the form of workshops where the relevant foreign expert and "study team" will present the problem, describe their plans for research and ask for constructive suggestions from the

participants. In addition, the final results of the studies will be presented by the MIPPE trainees to other MIPPE employees and to the private sector. The scheduling and planning of the seminars/workshops will be coordinated between the project's technical coordinator and the study team.

In addition to the local seminars/workshops, funding under the project will be made available for the attendance of MIPPE personnel to short-term seminars sponsored by the World Bank, IMF or other institutions relevant to their specialized areas of interest. The Program Director will keep abreast of seminars to be offered and will recommend candidates from MIPPE to participate in the seminar, subject to the Minister of MIPPE's approval.

c. Publications

To optimize the potential impact of the results of the studies, the project will provide funding for the publication and distribution of all studies performed. MIPPE representatives of the "study teams" will be charged with the responsibility of seeing that the report (or an abstract if the report is too lengthy) is published and distributed to relevant public and private sector individuals.

Another publication which will result from the project is a quarterly economic forecast newsletter which will be sold to public and private sector organizations. The publication will contain detailed and up-to-date statistics on macroeconomic phenomena (e.g., balance of payments, inflation, GDP, etc.) and on more detailed, selected microeconomic, sector-by-sector developments (prices, markets, production). Presently, there is no regular publication giving an up-to-date report of economic indicators. In a recent progress evaluation of the Investment Council of Panama Project (525-0239), consultants of the Stanford Research Institute reported that an impediment in attracting both domestic and foreign investment was a lack of current information in regard to the Panamanian economy. The need is widespread throughout the public and private sector. Thus, as an activity under this project short-term consultants will be contracted to work with MIPPE staff members to:

- (1) design a format for the quarterly publications,
- (2) train MIPPE employees in the accumulation analysis and compilation of economic data to be contained in the newsletter, and
- (3) set up the logistical system (budgeting, production, distribution).

IV. Project Analysis

A. Institutional Analysis

MIPPE's Origins and Objectives

The forerunner organization of today's Ministry of Planning and

Economic Policy (MIPPE) was created by Law 43 of November 1956 as a Presidential Advisory Department. In 1959, Decree No. 11 created a planning agency, housed within of the Presidency of the Republic consisting of three units: Economic Planning, Budget, and Administrative Development. Finally in 1973 Law 16 of February 28 created the Ministry of Planning and Economic Policy, with the following specific functions:

- a) to prepare and coordinate national economic plans;
- b) to represent the Government of Panama before multinational donor agencies such as the World Bank, the Interamerican Development Bank and the International Monetary Fund;
- c) to chair the National Banking Commission;
- d) to prepare and implement the public sector operating and investment budgets; and
- e) to improve public administration.

With the passing of time, MIPPE has been transformed from a small advisory unit to a sizeable Ministry with responsibilities which encompasses technical as well as project implementation responsibilities.

MIPPE's Structure and Operations

Currently, MIPPE is divided into five basic departments: Economic and Social Planning, Regional Planning, Budget, Administrative Development, and Public Sector Credit. Their functions are described below:

1. Economic and Social Planning

- Coordinate the preparation of the national economic plan;
- Prepare the Annual Economic Report on the Panamanian economy;
- Coordinate the preparation of the Public Investment Budget.

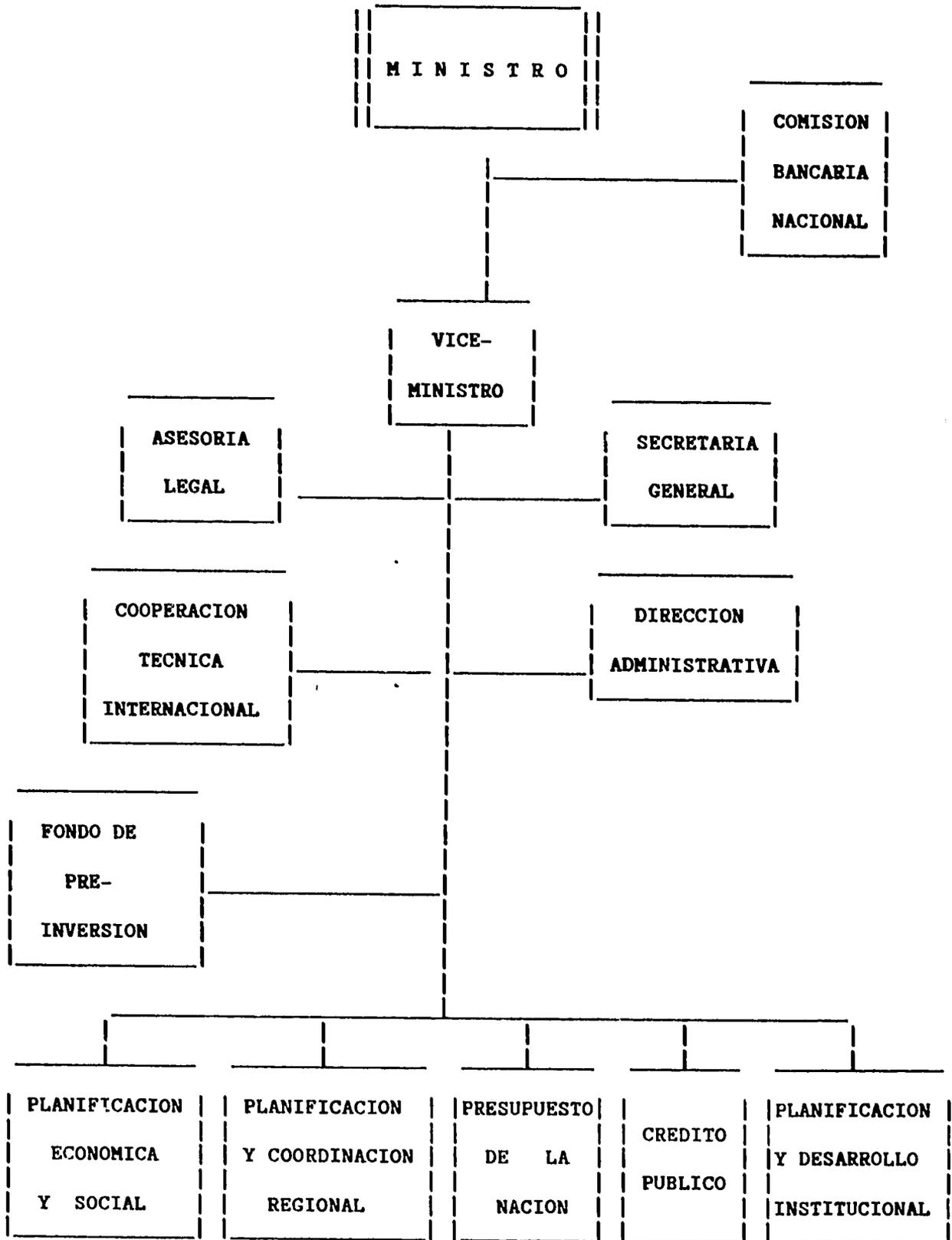
2. Regional Planning

- Formulate the regional development policy of the government;
- Advise the regional administrative units, municipalities and local committees in the preparation of development programs.

3. Budget

- To manage the administration of the budget of the public sector which consists in the preparation and formulation, financial and physical implementation, accounting and control, evaluation, coordination and liquidation of the budgets and their programs;
- To obtain budget requests from the different dependencies of the government before the 31st of July of every year;
- To adopt, together with the Comptroller General's Office, measures which tend to avoid different dependencies incurring expenses or obligations which exceed their quarterly allocations;

- Advise the Minister concerning adjustments in the budget, plans to reduce spending and the like to increase savings and efficiency in the budgetary operations.
4. Human Resources and Training (Planificación y Desarrollo Institucional)
- The orientation and development of plans to improve the administrative organization of the GOP and advise the different dependencies of the Government on how to strengthen their administrative capabilities;
 - To establish, coordinate, organize and evaluate training programs for public employees;
 - To collaborate with other dependencies of the Government in the organization of training facilities and programs.
5. Public Sector Credit.
- Advise the Minister on national financial, monetary and credit policy for its presentation to the National Financial Commission, the Cabinet Council and the President of the Republic; and after its approval, to coordinate the implementation of such policy.
 - To periodically examine the financial implementation of development programs and projects and the financing of Public Institutions, to inform the Minister on the state of the Public Debt and make subsequent presentation to the National Financial Commission and the Comptroller General of the Republic, the Cabinet Council and the President of the Republic;



As the goals and objectives of the Development Policy Studies Project are all related to the GOP's overall strategy for reactivating and sustaining Panamanian economic growth, MIPPE is the appropriate implementing agency for the project. Among all the Ministries and decentralized agencies within the GOP, only MIPPE is legally charged with designing, implementing (through the budgetary process), and monitoring and revising general--as opposed to sectoral--economic policy.

From its inception, one of MIPPE's most significant roles has been the preparation and publication of (i) periodic reviews of the performance of the Panamanian economy; (ii) projections of the future trends of the major economic variables and plans for stimulating activity in specified sectors; and (iii) detailed, technical analyses of a variety of relevant economic phenomena in and/or affecting Panama.

The successful fulfillment of this role was made possible, in part, by the fact that MIPPE's Department of Economic Analysis was consistently able to attract a significant number of young, qualified professionals, especially those just returning from graduate programs in top foreign (mostly U.S.) universities. MIPPE also assumed the natural role of coordinating, organizing and receiving technical cooperation programs, especially those which involved the assistance and consulting of visiting, high-level economists from North and South America.

As a result of the quality of its overall research program, MIPPE's economic reports were always avidly demanded and held in high esteem by Panama's financial and business community.

Since around the end of 1977, however, MIPPE--as well as the rest of the public sector--started to become more and more politicized. As technical and professional criteria were progressively pushed toward the background, the quality of MIPPE's professional staff began to deteriorate. Particularly the more experienced leaders among the analytical group left MIPPE and the public sector in favor of private-sector pursuits. Although those who remained in MIPPE still constituted a formally trained group, there was no leadership nor pressure for sound analyses to be produced, and as a result, most of these types of research and publication efforts ceased.

Only in 1983, with the re-emergence of technical leadership in MIPPE, was the latest economic report produced--after a long absence of any such publications. Further, MIPPE's technical leadership is still thin and almost wholly dedicated to trying to cope with the country's day-to-day financial crisis. Thus, even though the intentions have returned, there is still not enough depth of effective technical leadership for re-establishing MIPPE's capabilities for carrying out and disseminating serious economic analyses.

One of the major goals of the Development Policy Studies Project will be to provide the assistance and guidance needed in order to put MIPPE back onto its former track. The President, a former Minister of Planning in the

Ministry's better days, has told us that this is a high priority for his administration.

The staff of the Development Policy Studies Project will be physically and administratively located within MIPPE's Technical Assistance Program office. (This office was only recently--November 1983--created, precisely to administer and coordinate projects of economic studies and technical assistance). The Development Policy Studies Project will work closely with MIPPE's Department of Economic and Social Planning, and will have direct access to the Minister, Vice-Minister and other high officials in the GOP as appropriate.

B. Financial Analysis

1. Financial Plan

The total cost of this three-year Project is estimated to be \$4,000,000 of which AID will contribute \$3,000,000 through a grant. The GOP will finance 25 percent of the total costs, or \$1,000,000 with in-kind contributions. The Summary Financial Plan and Expected Disbursements by year are shown in Tables 1 and 2.

Project grant funds will finance the procurement of long- and short-term technical assistance over a three year period (approximately 312 person-months) in various fields of specialization. AID project funds will also finance the costs of selected short courses in such specialized fields as: in-country seminars and workshops; equipment purchases, including computer hardware and software, related office equipment, library materials, and travel and per diem. The GOP contribution will finance operational support, salaries, travel and per diem costs.

2. Recurrent Costs

Table 3 presents the distribution of Project components of expected annual recurrent costs for the GOP. The total \$400,000 represents a relatively small portion of the total budget of the Ministry of Planning and Economic Policy. It is anticipated that these costs will be financed from reallocation and rationalization of financial resources rather than from increments in MIPPE's budget. Considering the high priority the GOP attaches to the activities of the Project, it is the judgement of the Project Design Committee that the recurrent cost burden implied by the Project will be manageable over the longer term.

3. Methods of Implementation and Financing

Table 4 defines the methods to be used for implementation and financing as currently programmed. All methods fall within the three preferred by AID.

During the first year of the Project all Technical Assistance will be procured by AID directly with a U.S. firm. The procurement of a micro-computer and software, a photocopier, and appropriate supplies for use by the Project Team is included in the contract budget.

The Government of Panama is simplifying policies and regulations regarding the contracting of personal services and the procurement of goods. Therefore, by the first quarter of FY 86 MIPPE should be prepared to publish RFPs in U.S. and local publications for the second and third year T.A. contract(s). Negotiation and signature is targetted for February 1, 1986.

After the first year of the Project, the only activity to be implemented directly by AID will be the contracting of U.S. technical assistance for the mid-term and final evaluations.

The Office of International Technical Cooperation (CTI) in MIPPE will prepare all reimbursement vouchers and other official correspondence for the GOP. The CTI will carry out commodity procurement and contracting in conjunction with the Administrative Directorate and the Legal Advisor's Office MIPPE, with the approval of the Controller General's Office. Since GOP contracting and procurement regulations are expected to change during FY 85, we are not able to comment on them, except to note that we expect the process to be a relatively expeditious one.

Before the first disbursement of funds to CTI/MIPPE, the AID Panama Controller will assure that an adequate system of fiscal control over the Project components is in place. Experience with the U.S. contractor (Servicios Tecnicos del Caribe) now working under the Economic Studies Program has been satisfactory. The contractor is well versed in AID procedures, and good in-country administrative support to the Project Team has kept billing efficient and timely. MIPPE has carried out a number of projects with AID, and their administrative division is clear on AID procurement policy and reimbursement procedures.

TABLE 1
Summary Financial Plan
(\$000)

	<u>A I D</u>	<u>G O P</u>	<u>Total</u>
1. <u>Technical Assistance</u>	<u>2,350</u>	-	<u>2,350</u>
a. Long-term Advisors	1,600	-	1,600
b. Short-term Advisors	750	-	750
2. <u>Training</u>	<u>250</u>	<u>100</u>	<u>350</u>
a. Short Courses	180	60	240
b. Seminars/Workshops	70	40	110
3. <u>Surveys/Data Collection</u>	<u>70</u>	<u>25</u>	<u>95</u>
4. <u>Publications</u>	<u>200</u>	<u>50</u>	<u>250</u>
5. <u>Equipment and Supplies</u>	<u>60</u>	<u>50</u>	<u>110</u>
a. Micro-computer	10	-	10
b. Copying Machine	10	-	10
c. Supplies	40	50	90
6. <u>Operational Expenses</u>	-	<u>775</u>	<u>775</u>
7. <u>Evaluations</u>	<u>70</u>	-	<u>70</u>
TOTAL	<u>3,000</u>	<u>1,000</u>	<u>4,000</u>

TABLE 2
Estimate Disbursements by Year
(\$000)

	<u>1st.</u> <u>Year</u>	<u>2nd.</u> <u>Year</u>	<u>3rd.</u> <u>Year</u>	<u>Total</u>
1. <u>Technical Assistance</u>	<u>795</u>	<u>800</u>	<u>755</u>	<u>2,350</u>
a. Long-term Advisors	510	525	550	1,585
b. Short-term Advisors	285	275	205	765
2. <u>Training</u>	<u>100</u>	<u>120</u>	<u>130</u>	<u>350</u>
a. Short Courses	80	80	90	250
b. Seminars/Workshops	20	40	40	100
3. <u>Surveys/Data Collection</u>	<u>30</u>	<u>40</u>	<u>25</u>	<u>95</u>
4. <u>Publications</u>	<u>70</u>	<u>90</u>	<u>90</u>	<u>250</u>
5. <u>Equipment and Supplies</u>	<u>50</u>	<u>30</u>	<u>30</u>	<u>110</u>
a. Micro-computer	10			10
b. Copying Machine	10			10
c. Supplies	30	30	30	90
6. <u>Operational Expenses</u>	<u>200</u>	<u>250</u>	<u>325</u>	<u>775</u>
7. <u>Evaluations</u>		<u>30</u>	<u>40</u>	<u>70</u>
TOTAL	<u>1,245</u>	<u>1,360</u>	<u>1,395</u>	<u>4,000</u>

TABLE 3

Estimated Annual Recurrent Costs for the GOP

(\$000)

1. Surveys/Data Collection	25
2. Publications	75
3. Operational Expenses	300
Total	<u>400</u>

TABLE 4

Methods of Implementation & Financing
Life of Project Estimate
(\$000)

<u>Methods of Implementation</u>	<u>Method of Financing</u>	<u>Approx. Amount</u>
T.A. AID Direct U.S. Firm ^{1/}	Direct Pay	920
T.A. H.C. Proc Code 000 Firm	H.C. Reimb.	1,600
Training H.C. Proc.	H.C. Reimb.	250
Commod. H.C. Proc.	H.C. Reimb.	230
Total.....		<u>\$3,000</u>

Implementation & Financing by Year
and Budget Item
(Estimated)

Year One
(\$000)

<u>Budget Item</u>	<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Approximate Amount</u>
1. Technical Assistance	T.A. U.S. firm	Direct Pay	795
2. Training	Host Country Procurement	Host Country Reimbursement	80
3. Surveys/Data Collection	T.A. U.S. firm	Direct Pay	25
4. Publications	Host Country	Host Country	70
5. Equipment and Supplies	T.A. U.S. firm	Direct Pay	30
6. Operational Expenses	--	--	--
7. Evaluations	--	--	--
			<u>\$1,000</u>

^{1/} Includes thirty thousand dollars for computer and office equipment. See Item 5 - Year One above.

Year Two

1. Technical Assistance (Code 000 firm)	Host Country Procurement	Host Country Reimbursement	800
2. Training	Host Country Procurement	Host Country Reimbursement	80
3. Surveys/Data Collection	Host Country Procurement	Host Country Reimbursement	25
4. Publications	Host Country Procurement	Host Country Reimbursement	70
5. Equipment and Supplies	Host Country Procurement	Host Country Reimbursement	15
6. Operational Expenses	--	--	--
6. Evaluations	T.A. U.S. firm	Direct Pay	<u>30</u>
			\$1,020

Year Three

<u>Budget Item</u>	<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Approximate Amount</u>
1. Technical Assistance (code 000 firm)	Host Country Procurement	Host Country Reimbursement	755
2. Training	Host Country Procurement	Host Country Reimbursement	90
3. Surveys/Data Collection	Host Country Procurement	Host Country Reimbursement	20
4. Publications	Host Country Procurement	Host Country Reimbursement	60
5. Equipment and Supplies	Host Country Procurement	Host Country Reimbursement	15
6. Operational Expenses	--	--	--
6. Evaluation	T.A. U.S. firm	Direct Pay	<u>40</u>
			\$ 980

C. Economic Analysis

This is an institution-building project. As such, its objectives are qualitative in nature and difficult to measure quantitatively. The Economic Background section and the Economic Rationale section provide a qualitative assessment of the benefits that would result from the proposed project.

Implementing clear and consistent policies which encourage increased participation of the private sector in the expansion of investments and productive activities is of fundamental importance for renewed and sustained growth of the Panamanian economy. The economic costs, if these policy reforms are not implemented are very high, as resources will continue to be misallocated, opportunities for investments will not be realized and unemployment, already at a dangerously high level, will grow even more, further increasing the risks of political and civil tension.

Existing price, labor, tax, commercial and agricultural policies have tended to distort the Panamanian economy. This project will assist in formulating policy changes which will direct the economy toward a free market orientation. The reduction and eventual elimination of subsidies, and protective measures will lead to public savings, increased productive activities and increases in consumer welfare. Policies which provide incentives, sustainable over the long term, will allow private producers to make rational, foresighted decisions which will benefit both the individual and the nation. The objectives of the Project are sufficiently important to warrant costs of the magnitude contemplated.

D. Technical Analysis

In designing this Project, every effort was made to incorporate elements which would be cost effective and technically appropriate. Working in close collaboration with host country counterparts, a thorough review of those economic policy areas requiring in-depth examinations was carried out and the establishment of priorities considered. The technology used in this Project is simple and straightforward. The modes of support principally consist of technical assistance, short technical training, computational equipment, various workshops and seminars, and assistance in disseminating the results and recommendations of the various studies. The Project builds explicitly on lessons learned from prior experience. It is designed to satisfy existing demand for information and analysis. The feasibility of the technical element has been tested and confirmed by the terminating Economic Studies Program financed with PD and S resources during the past year.

In the judgement of the Project Design Committee, the overall technology of the Project is appropriate to the Panamanian context and the Project purpose can best be satisfied by implementing the combined set of activities herein described.

E. Social Analysis

In the judgement of the Project Design Committee, the Project is socially sound. Previous GOP emphasis has been on social development through direct public investment. It is the intention of this project to protect and indeed increase those recent gains through the development of a new partnership with the private sector. The design of each component of the Project has taken place in close collaboration with counterparts and is a direct response to perceived needs on their part. Furthermore, it is reasonable to expect that the benefits of the Project will extend well beyond its immediate beneficiaries.

As argued throughout this document, there is an urgent need to implement a major shift in economic policies in response to Panama's emerging development strategy in order to effect a renewed and sustained growth rate high enough to significantly reduce unemployment. The series of studies contemplated under this project will form the analytical underpinnings for these new policies. It can be anticipated that the impact resulting from these policy decisions and actions will vary among groups. Those who have profited as a result of past protectionist policies will be affected negatively in the short run. Beyond the short-term, however, as the economy responds to market forces, resources will be allocated more efficiently, productivity and production will increase and unemployment should decrease. Ultimately, the benefits of increased employment and incomes should accrue to a larger segment of a growing population.

Policy analysis cannot be divorced from politics. While not underestimating the political difficulties, the necessity of reorienting its policies and programs is fully recognized by key decision makers of the incoming administration. Critical to this effort is the re-establishment within the government of an analytical capacity to evaluate alternative policy options and anticipate their effects. The main issue which then emerges with respect to policy reforms becomes whether or not they should be based on sound information and analytical underpinnings. There appears to be widespread concurrence, within both the public and private sectors that such should indeed be the case.

F. Environmental Analysis

A review of the Project during PID/PP development resulted in a recommendation by the Mission that the Initial Environmental Examination (IEE) was not required because the projects activities are within the class of actions described in Section 216.2, Paragraph c(i) and c(XIV), "Categorical Exclusions of 22CFR, Part 216." Annex 1, Exhibit E contains the "Environmental Determination."

V. IMPLEMENTATION ARRANGEMENTS

A. GOP Responsibilities

1. Project Management

The GOP institution responsible for overall management and coordination of the Project is the Ministry for Planning and Economic Policy; specifically, the Project Manager will be the Chief of the Technical Assistance Program Office.

2. Implementation Plans

The Project Manager in conjunction with the Program Director and Technical Coordinator will draft the annual implementation plans which will be approved by the Minister of MIPPE prior to submission to USAID.

3. Disbursements

The Project Manager will submit regular requests for reimbursements and disbursements made in accordance with the approved annual implementation plan and budget to the USAID/Panama Controller. Documentation required for each disbursement will be in accordance with USAID established procedures.

B. USAID Responsibilities

One USAID direct hire employee of the Office of Development Planning will serve as Project Officer and will monitor project implementation to assure that the terms and conditions of the Project Agreement are met.

C. Reporting Requirements

The Project Manager in consultation with the Program Director and Technical Coordinator will submit to USAID/Panama, an annual progress report detailing activities and expenditures, based on the approved implementation plan.

Additional Mission offices, such as the Executive Office, the Office of Development Resources, the Regional Contract Officer and the Regional Legal Advisor, will be called upon as appropriate.

D. Implementation Plan

<u>Date</u>	<u>Activity</u>
10/08/84	Project Identification Document approved in AID/W
11/23/84	Project Paper Review and AID/P approval
12/05/84	Project Agreement signed
12/15/84	Initial Conditions Precedent met
01/15/84	Contracting completed
01/15/84	Annual Implementation Plan and Financial Plan submitted to AID.
01/21/85	Annual Implementation Plan and Financial Plan approved
02/02/85	Development Policy Studies Project funding of studies begins.
	Photocopy machine purchased
	One Micro-computer purchased
12/15/85	Annual implementation and Financial plans submitted
12/31/85	Annual Implementation and Financial plans approved by AID
06/15/86	Mid-term evaluation begins
07/15/86	Mid-term evaluation submitted
12/15/86	Annual Implementation and Financial plans submitted
12/31/86	Annual Implementation and Financial plans approved by AID
01/31/86	Annual progress report submitted
07/01/87	Final evaluation begins
07/30/87	Final evaluation and final progress report submitted
01/31/88	Final Progress report (summary) submitted to AID

E. Disbursement Procedures

No deviation from established AID disbursement procedures is anticipated. Materials and equipment procured in the United States or Panama will be paid for in accordance with standard AID disbursement procedures. These procedures will be transmitted to the GOP through Project Implementation Letters.

F. Contracting Procedures

1. Source, Origin, Nationality

Goods and services procured under the Grant shall have their source origin and nationality in the United States Code 000 of the AID Geographic Code Book.

2. Equipment Procurement

The procurement of a microcomputer and a photocopying machine will be carried out directly by the consulting firm.

3. Acquisition of Technical Assistance

SER/CM in AID/Washington and the SBA will negotiate a new contract with Servicios Técnicos del Caribe (STC) ^{1/} to continue technical services for 12 months. Calendar 1986 and 1987 work will be performed under Host Country Contracts.

The GOP is currently studying reform of personal services contracting procedures and it is expected that the Development Studies Project will contract one firm to supply all of the consultants as is the case now with Servicios Técnicos del Caribe, (see Methods of Implementation and Financing IV.B.3).

The manpower requirements over the life of the project are estimated as follows:

- a) Long Term Technical Assistance
 - Program Director (36 p.m.)
 - Technical Director (36 p.m.)
 - Systems Analyst (36 p.m.)
 - Administrative Officer (36 p.m.)
 - Three Junior Economists (108 p.m.)
- b) Short Term Technical Assistance (60 p.m.)

^{1/} Servicios Técnicos del Caribe is an 8A firm.

G. Evaluation Plan

The GOP will provide USAID with annual progress reports on the Project. These will focus on "process" issues, that is, whether activities are being implemented according to plan, what problems need to be resolved, and what corrections are called for.

In addition to the regular progress reports, two evaluations will be conducted. The first will be an in-depth examination of the extent to which the Project is achieving its purpose at mid-term. Particular attention will be paid to assessing the demand for policy analysis, how this demand has been affected by the Project and a prognosis for the future. An assessment will also be made of the GOP's effectiveness and efficiency in implementing policy changes, particularly those that directly affect and are supportive of private sector activities.

In the first evaluation, a careful examination will be made of the continued GOP commitment to improve its policy reform and formulation capacity. If a negative determination is reached with respect to the GOP's commitment in this regard over the longer term, Mission plans for incremental funding for subsequent years will have to be reconsidered.

The final evaluation will be an impact evaluation to be conducted at the end of the Project. This evaluation will assess the extent to which the Project has achieved the intended objectives, describe the unintended outcomes that have resulted, and document lessons that have been learned from the Project.

These evaluations will be conducted by independent consulting teams.

H. Conditions, Covenant, and Negotiating Status

1. Conditions

a. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under the Grant, or the issuance by AID of any documentation pursuant to which disbursement will be made under the Project Agreement, the Grantee shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

- (i) A legal opinion from the Panama Attorney General's office to the effect that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(ii) A statement of the name of the person holding or acting in the office of the Grantee specified in the Project Agreement and of any additional representatives, together with a specimen signature of each person specified in such statement.

b. Conditions Precedent to Disbursement to finance Project Activities

Prior to any disbursement, or to the issuance of commitment documents under the Project Agreement to finance any Project activity, except for the contracting of technical assistance, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in a form and substance satisfactory to AID a time-phased implementation plan which describes Project activities to be carried out through calendar year 1985, including a description of policy studies to be executed, and a budget for such Project activities.

c. Conditions Precedent to Disbursements for Project Activities After Calendar Year 1985

Prior to any disbursement, or to the issuance of any commitment documents under the Project Agreement to finance any new Project activity each year after calendar year 1985, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(1) a time phased implementation plan which describes the Project activities to be carried out in the calendar year, including a description of all policy studies to be executed.

(2) a financial plan.

2. Covenants

- a. The Grantee covenants that, except as AID otherwise agrees in writing, it will make reasonable efforts to retain personnel trained under the Project in positions related to policy formulation and management.
- b. The Grantee covenants that, except as AID otherwise agrees in writing, it will provide adequate office support and space for project activities.

3. Negotiating Status

In order to begin Project Design, Mission representatives met with Ministry of Planning and Economic Policy officials. A working committee was formed, consisting of Mission representatives of the Development Resources, Development Programs, and Controller Offices and MIPPE representatives. Over the Project development period, numerous meetings were held to enable close collaboration in the design of the proposed Project.

ANNEX I

Exhibit A.	Logical Framework
Exhibit B.	Grantees Request
Exhibit C.	Project Authorization
Exhibit D.	Statutory Checklist
Exhibit E.	Environmental Determination

**PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK**

Project Title & Number: DEVELOPMENT POLICY STUDIES
(525-0250)

Life of Project: FY85 to FY88
Total U.S. Funding \$3,000,000
Date prepared: November 16, 1984
Wang Docs 8596N/8080W

<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICATORS</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>																																																
<p>Goal: To facilitate renewed economic growth with emphasis on the initiative and investment on the private sector.</p> <p>Purpose: To carry out a program of economic studies that will provide the basis for formulating a professional, comprehensive and coherent set of policies, and by actively including MIPPE staff in all aspects of the work, create a group of experienced and motivated professionals.</p>	<p>Improvement in economy as measured by increase in GDP, decrease in debt ratios and unemployment.</p> <p>MIPPE has established the internal technical capability to perform analysis and to formulate recommendations for policy changes. Policy studies and quarterly economic newsletters are being published regularly.</p> <p>A.1. 24 studies/reports performed and the corresponding appropriate recommendations for new legislation, draft laws or budget allocation proposed.</p> <p>2. 40 MIPPE staff trained/participated in preparing studies.</p> <p>3. 24 GOP Seminars/workshops held.</p> <p>4. 12 Private Sector Seminars held.</p> <p>B.1. 24 reports published.</p> <p>2. Mechanism in place for ongoing accumulation and analysis of economic data and quarterly economic forecast newsletter routinely published and distributed.</p>	<p>Economic Indicators</p> <p>Economic reports, changes in GOP policies laws/budget allocations.</p> <p>Economic publications MIPPE records, Progress reports Evaluations</p>	<p>—Continued political stability —Absence of natural disaster</p> <p>—GOP will act upon policy recommendations</p> <p>—Strong leadership —Qualified staff remains at MIPPE</p>																																																
<p>Inputs:</p> <table border="0"> <tr> <td>A. Technical Assistance</td> <td>2350</td> <td>-</td> <td>2350</td> </tr> <tr> <td> Long Term 252 pm (7 x 3 yrs.)</td> <td>1600</td> <td>-</td> <td>1600</td> </tr> <tr> <td> Short Term 60 pm</td> <td>750</td> <td>-</td> <td>750</td> </tr> <tr> <td>B. Training</td> <td>250</td> <td>100</td> <td>350</td> </tr> <tr> <td> Short Courses</td> <td>180</td> <td>60</td> <td>240</td> </tr> <tr> <td> Seminars/Workshops</td> <td>70</td> <td>40</td> <td>110</td> </tr> <tr> <td>C. Surveys/Data Collection</td> <td>70</td> <td>25</td> <td>95</td> </tr> <tr> <td>D. Publications</td> <td>200</td> <td>50</td> <td>250</td> </tr> <tr> <td>E. Equipment and Supplies</td> <td>60</td> <td>50</td> <td>110</td> </tr> <tr> <td>F. Operational Expenses</td> <td>-</td> <td>775</td> <td>775</td> </tr> <tr> <td>G. Evaluation</td> <td>70</td> <td>-</td> <td>70</td> </tr> <tr> <td> Total</td> <td><u>3000</u></td> <td><u>1000</u></td> <td><u>4000</u></td> </tr> </table>	A. Technical Assistance	2350	-	2350	Long Term 252 pm (7 x 3 yrs.)	1600	-	1600	Short Term 60 pm	750	-	750	B. Training	250	100	350	Short Courses	180	60	240	Seminars/Workshops	70	40	110	C. Surveys/Data Collection	70	25	95	D. Publications	200	50	250	E. Equipment and Supplies	60	50	110	F. Operational Expenses	-	775	775	G. Evaluation	70	-	70	Total	<u>3000</u>	<u>1000</u>	<u>4000</u>		<p>1. USAID reports/records</p> <p>2. GOP/MIPPE reports/records</p>	<p>—Funds available on timely fashion</p> <p>—TA is contracted in a timely manner</p>
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*República de Panamá**Ministerio de Planificación y Política Económica*

Panamá, 20 de Septiembre, 1984

Señor
John L. Lovaas,
Director Interino,
Agencia Para el Desarrollo
Internacional (AID),
E. S. D.

Estimado Sr. Lovaas:

Tengo el agrado de dirigirme a usted para solicitar el financiamiento por parte de la Agencia para el Desarrollo Internacional ("AID") de Tres millones de Dólares (\$3,000,000) en calidad de donación, para el Proyecto de Estudios de Política para el Desarrollo. Este proyecto será una continuación del Programa de Estudios Económicos que se está llevando a cabo en el Ministerio de Planificación y Política Económica (MIPPE), el cual está programado a terminar en diciembre de 1984.

Desde hace algún tiempo representantes del Gobierno de la República de Panamá y de la AID han estado trabajando estrechamente en el diseño de este proyecto tan importante, el cual representará una importante ayuda para analizar cabalmente las medidas de política económica necesarias para liberalizar la economía y reactivar al sector privado.

Sin otro particular por el momento, me despido de usted.

Atentamente,

Lic. Abdíel Ureña,
Ministro Encargado.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

Development Policy Studies (525-0250)
Project Paper
December 1984

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1985 Continuing Resolution Sec. 528.

1. No

Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

2. FAA Sec. 620 (c).

2. No

If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

3. FAA Sec. 620(e)(1).

3. No

If assistance is to a government, has it (including government agencies or subdivisions) taken the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. Citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

4. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. 4. No
Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?
5. FAA Sec. 620 (j). 5. No
Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U. S. property?
6. FAA Sec. 620(l). 6. No
Has the country failed to enter into an agreement with OPIC?
7. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. 7. No
(a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?
(b) If so, has any deduction required by the Fishermen's Protective Act been made?
8. FAA Sec. 620(q); FY 1985 Continuing Resolution Sec. 518. 8. (a) No
(a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country?
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds? (b) No
9. FAA Sec. 620(s). 9. Yes
If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on

military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

10. FAA Sec. 620(t).

Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

10. No

11. FAA Sec. 620(u).

What is the payment status of the country's U.S. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

11. Panama is not in arrears in its payments of its U.N. obligations

12. FAA Sec. 620A; FY 1985 Continuing Resolution Sec. 521.

Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

12. No

13. FAA Sec. 666.

Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

13. No

14. FAA Sec. 669, 670.
Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)
14. No
15. ISDCA of 1981 Sec. 720.
Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communiqué issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)
15. Yes. It was so taken into account in the FY 85 Taking Into Consideration Memorandum.
16. FY 1985 Continuing Resolution.
If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion?
16. N/A
17. FY 1985 Continuing Resolution Section 530.
Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?
17. No

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.
FAA Sec. 116.

Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

1. No

2. Economic Support Fund Country Criteria.
FAA Sec. 502B.

Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

2. N/A

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;

1. (a) A Congressional Notification for the Project was sent on September 28, 1984 and expired on October 13, 1984.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

(b) Yes

2. FAA Sec. 611(a)(1). Price to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

2. Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within the recipient country, what is the basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

3. N/A

4. FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land

4. N/A

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resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973 or the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)

5. FAA Sec. 611(e).

If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistance Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

5. N/A

6. FAA Sec. 209.

Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

6. The Project is not susceptible to execution as part of a regional or multilateral project.

7. FAA Sec. 601(a).

Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

7. The Project encourages Panama's efforts to: (a) increase the flow of international trade through studies to be done on the National Port Authority, relative costs and markets and the reactivation of Tourism; (b) foster private initiative and competition through studies on divestiture of public enterprises, creation of domestic capital markets to replace government funded programs and participating the private sector in economic policy formulation; (c) strengthen the savings and loan associations and housing coops through study aimed at improving their funding capabilities; (d) improve the rate management policies of the three state utilities commissions made up of private and public sector representatives and a study of petroleum derivate fuel policy; (e) strengthen free labor unions through studies of the labor code aimed in part at increasing the bargaining roles of both labor and business and decreasing government influence in organized labor.

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8. FAA Sec. 601(b).
Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
8. The Project will encourage U.S. private trade and investment abroad by strengthening the GOP's economic policies for both local and international markets. The Project will also encourage private U.S. participation in the foreign assistance program in Panama by utilizing U.S. technical assistance.
9. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507.
Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
9. The U.S. dollar is the legal tender in Panama.
10. FAA Sec. 612(d).
Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
10. No
11. FAA Sec. 601(e).
Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
11. Yes
12. FY 1985 Continuing Resolution Sec. 522.
If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?
12. No
13. FAA 118(c) and (d).
Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?
13. An IEE has been carried out and a negative determination was made. The project will finance a study of the domestic lumber industry (construction materials) and will assist the GOP to reform logging regulations to allow for rational management of forest resources.

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14. FAA 121(d).

If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

14. N/A

15. FY 1985 Continuing Resolution Sec. 536.

Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

15. No. Disbursement of Project funds is not conditioned upon Panama's adherence to the policies of any multilateral institution.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a).

Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

1. (a) The main thrust of the Project is to provide guidelines for the formulation of government economic policies that will activate private sector investment and stimulate job creation. Studies of such subjects as: intraregional ground transportation, utilities rates, utilities management, and fuel policies are aimed at reducing inefficiency and costs. These savings will most benefit the low-income non-urban population. (b) Development of cooperatives is being assisted through the AID-GOP Agricultural Cooperative Marketing Project. (c) The Project will assist the GOP to revitalize the economy throughout technical assistance and training to the principal participants in the formulation of economic policies. (d) Women will benefit from the GOP adoption of sound economic policies that will stimulate job creation. (e) Studies financed by the Project will include analyses of Panama's policies for its export sector, including the impact of such policies on trade with other countries in the region.

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- b. FAA Sec. 103, 103A, 104, 105, 106.
Does the project fit the criteria for the type of funds (functional account) being used?
- b. Yes
- c. FAA Sec. 107.
Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?
- c. To the extent feasible, studies to be financed under the Project will focus on appropriate technology.
- d. FAA Sec. 110(a).
Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?
- d. Yes
- e. FAA Sec. 110(b).
Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.")
- e. No
- f. FAA Sec. 122(b).
Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?
- f. Yes. The Project should have the effect of increasing production and efficiency in Panama.

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g. FAA Sec. 281(b).
 Describe extent to which program recognizes the particular, needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

g. The goal of the project is to facilitate renewed economic growth with emphasis on the initiative and investment of the private sector. The project's purpose is to carry out a program of economic studies that will provide the basis for formulating a progressive, comprehensive and coherent set of policies, and by actively including MIPPE staff in all aspects of the work, create a group of experienced and motivated professionals who will form a core of technicians who will set the standards and provide the initiative for economic policy development after the project ends.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b).
 Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

2. a. N/A

b. FAA Sec. 620(d).
 If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

b. N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a).
 Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

3. a. N/A

b. FAA Sec. 531(c).
 Will assistance under this chapter be used for military, or paramilitary activities?

b. N/A

c. FAA Sec. 534.
 Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

c. N/A

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d. FAA Sec. 609.
If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

d. N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602.
Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?
 1. Yes. An 8A firm will be contracted to provide technical assistance services.
2. FAA Sec. 604(a).
Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?
 2. Most of the goods and services to be acquired under the Project will have source, origin and nationality in the U.S.
3. FAA Sec. 604(d).
If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?
 3. Panama does not discriminate against marine insurance companies authorized to do business in the U.S.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a).
If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)
 4. No agricultural commodities will be procured offshore under the Project.
5. FAA Sec. 604(g).
Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive
 5. No

capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

6. FAA Sec. 603.

Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

6. No

7. FAA Sec. 621.

If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

7. Yes

8. International Air Transportation Fair Competitive Practices Act, 1974.

If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

8. Yes

9. FY 1985 Continuing Resolution Sec. 504.

If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

9. Yes

B. Construction

1. FAA Sec. 601(d).

If capital (e.g., construction) project, will U.S. engineering and professional services to be used?

1. This is not a capital construction Project.

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2. FAA Sec. 611(c). 2. N/A
If contract for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). 3. N/A
If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)?

C. Other Restrictions

1. FAA Sec. 122(b).

If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? 1. This is a grant project

2. FAA Sec. 301(d). 2. N/A
If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

3. FAA Sec. 620(h). 3. Yes
Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1985 4. a. Yes
Continuing Resolution Sec. 527:
(1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide

financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

- b. FAA Sec. 620(g). b. Yes
To compensate owners for expropriated nationalized property?

- c. FAA Sec. 660. c. Yes
To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

- d. FAA Sec. 662. d. Yes
For CIA activities?

- e. FAA Sec. 636(i). e. Yes
For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

- f. FY 1985 Continuing Resolution, Sec. 503. f. Yes
To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?

- g. FY 1985 Continuing Resolution, Sec. 505. g. Yes
To pay U.S. assessments, arrearages or dues?

- h. FY 1985 Continuing Resolution, Sec. 506. h. Yes
To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?

- i. FY 1985 Continuing Resolution, Sec. 510. i. Yes
To finance the export of nuclear

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equipment, fuel, or technology or to train foreign nationals in nuclear fields?

j. FY 1985 Continuing Resolution,
Sec. 511.

j. No

Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

k. FY 1985 Continuing Resolution,
Sec. 516.

k. Yes

To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

ENVIRONMENTAL DETERMINATION

1. Project Location: Panama
2. Project Title and Number: Development Policy Studies (525-0250)
3. Funding: \$3,000,000 Grant
4. Project Purpose and Activities: To institutionalize an on-going program of economic studies as the basis for formulating a progressive, comprehensive and coherent set of policies.
 - (a) Establish economic policy analysis, formulation and implementation capability.
 - (b) Establish mechanism for publishing and distributing economic reports and quarterly economic forecast letters.
5. Statement of Categorical Exclusion:

It is the opinion of the USAID/Panama Project Committee that the Project does not require an Initial Environmental Examination because its activities are within the class of actions described in Section 216.2, Paragraph C (i) and (XIV) in "Categorical Exclusions of 22CFR Part 216."

"Section 216.2c(2)(i)"

Education, technical assistance or training programs except to extent such programs include activities directly affecting the environment."

"Section 216.2c(2)(XIV)"

"Studies, projects or programs intended to develop the capability of recipient countries to engage in development planning, except to the extent designed to result in activities directly affecting the environment."

6. Concurrence of the Mission Director (Acting)

I have reviewed the above statement and concur in the determination that the Project "Development Policy Studies" (525-0250) does not require an Initial Environmental Examination.

11/29/84

Date


John L. Lovaas
Acting Mission Director, USAID/Panama

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ACTION
COPY

UNCLASSIFIED
Department of State

INCOMING ^{Annex 1}
TELEGRAM ^{Exhibit F}

Zalman

PAGE 01 PANAMA 01673 132055Z 6360 068950 AID5467

ACTION AID-00

ACTION OFFICE LADR-03

INFO LACE-03 LACO-02 LADP-04 RELO-01 MAST-01 /014 A3 214

INFO LOG-00 CIAE-00 EB-08 DODE-00 ARA-00 /008 W

-----206337 132225Z /38

R 132052Z FEB 85
FM AMEMBASSY PANAMA
TO SECSTATE WASHDC 9645

UNCLAS PANAMA 01673

AIDAC

ATTN: LAC/DR

E.O. 12356: N/A

SUBJECT: PROJECT PAPERS FOR SMALL BUSINESS
DEVELOPMENT (525-0240) AND
DEVELOPMENT POLICY STUDIES (525-0250)

1. USAID/PANAMA CONTROLLER REVIEWED AND APPROVED THE DETAILED ASSESSMENT OF THE METHODS OF IMPLEMENTATION AND FINANCING INCLUDED IN THE FINANCIAL ANALYSIS SECTION OF SUBJECT PROJECT PAPERS. THUS, IN APPROVING THESE ASSESSMENTS AND CLEARING SUBJECT PP'S, USAID CONTROLLER EXERCISED HIS AUTHORITY UNDER REDELEGATION OF AUTHORITY 135.1.
2. PLEASE REPRODUCE SUBJECT PP'S AND FURNISH COPIES TO MISSION ASAP. BRIGGS

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Department of State

OUTGOING ANNEX G
TELEGRAM 1 of 1

PAGE 01 STATE 314888
ORIGIN AID-80

3385 897789 AID4946

STATE 314828

3385 097706 AID4946

STUDIES CARRIED OUT UNDER THE ON-GOING PROGRAM, SHOULD BE
UPDATED IN THE PROJECT PAPER.

ORIGIN OFFICE LADR-03
INFO AALA-01 LADP-04 PPCE-01 GCLA-03 PPDC-01 RELO-01 MAST-01
LACA-03 AGEE-01 /D19 A4 G023

7. THE DETAILED DISCUSSION PRESENTED IN THE PID OF THE
MACROECONOMIC PROBLEMS OF PANAMA WAS FOUND ACCEPTABLE FOR
THE ECONOMIC ANALYSIS SECTION OF THE PROJECT PAPER. THE
MISSION IS COMPLEMENTED FOR THE THOROUGH ANALYSIS OF THE
ECONOMIC SITUATION IN PANAMA.

INFO OCT-80 EB-08 ARA-00 /008 R

8. THE DAEC AGREES WITH THE PROPOSED APPROVAL OF THE
PROJECT PAPER IN THE FIELD. SHULTZ

DRAFTED BY AID/LAC/DR: AVELASQUEZ: CP

APPROVED BY AID/AA/LAC: VRIVERA

AID/LAC/LR: DCHIRIBOGA (DRAFT)

AID/LAC/DP: CEVEVEKAS (DRAFT)

AID/LAC/CAP: PASHIN (DRAFT)

AID/GC/LAC: PJOHNSON (DRAFT)

AID/LAC/DR: MOTT (DRAFT)

AID/LAC/DR: ILEVY

AID/LAC/DR: DJOHNSON

AID/DAA/LAC: HDBROWN

-----077676 2322082 /38

P 232039Z OCT 84
FM SECSTATE WASHDC
TO AMEMBASSY PANAMA PRIORITY

UNCLAS STATE 314888

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: DEVELOPMENT POLICY STUDIES PROJECT (525-0250)

*File
525-0250*

1. THE DAEC REVIEWED AND APPROVED THE SUBJECT PID ON
OCTOBER 9, 1984. FOLLOWING ARE THE MAJOR ISSUES DISCUSSED
AND THE GUIDANCE FOR THE DEVELOPMENT OF THE PROJECT PAPER.

2. THE PROJECT PAPER SHOULD INCLUDE A DESCRIPTION OF HOW
STUDIES WOULD BE SELECTED. THE RECOMMENDED PROCEDURE
WOULD BE TO LET THE GOP IMPLEMENTING AGENCY SELECT THE
POLICY AREA FOR STUDY, SUBJECT TO THE APPROVAL OF AID. A
KEY CRITERION IN THIS PROCEDURE FOR THE SELECTION OF
STUDIES SHOULD BE THE DIRECT APPLICABILITY OF THE STUDY TO
ASSIST IN ECONOMIC POLICY DECISIONS. IN OTHER WORDS, WE
DO NOT WANT NICE STUDIES WHICH SIT ON SHELVES. WE WANT
STUDIES WHICH ARE USED BY DECISION MAKERS.

3. THE EVALUATIONS SHOULD ASSESS WHETHER AND WHAT POLICY
CHANGES HAVE BEEN UNDERTAKEN AS A RESULT OF THE PROJECT.
AMONG THE END-OF-PROJECT STATUS INDICATORS SHOULD BE
SEVERAL POLICIES DETERMINED UPON THE BASIS OF THESE
STUDIES.

4. THE DESCRIPTION OF SHORT-TERM TECHNICAL ASSISTANCE
SHOULD PERMIT, IN ADDITION TO STUDIES OF SPECIFIC THEMES,
CONSULTATION WITH GOVERNMENT OFFICIALS.

5. THE MISSION SHOULD CONSIDER SEVERAL CONTRACTING
OPTIONS TO ENHANCE THE EFFECTIVENESS AND/OR REDUCE THE
COST OF THE PROJECT, E.G. (A) HOST COUNTRY CONTRACTING
WHICH WOULD PROVIDE AN INCENTIVE FOR MODIFYING THE
CUMBERSOME CONTRACTING MECHANISMS USED TODAY BY THE GOP,
WOULD HAVE A GREATER INSTITUTION BUILDING EFFECT SO THAT
THE GOP COULD CONTINUE SUCH CONTRACTS AFTER THE PROJECT,
AND MIGHT ENHANCE RECEPTIVITY OF GOP TO RESULTS OF
STUDIES; (B) DIRECT AID CONTRACTING BY USAID (SHORT TERM
T/A THRU PERSONAL SERVICES CONTRACTS ARE NOT A SEVERE
BURDEN ON MISSION AND AVOID EXPENDITURE FOR OVERHEAD AND
PROFIT WHICH ARE PART OF ANY CONTRACT WITH A FIRM); AND
(C) AID/W CONTRACTING AS WAS PROPOSED BY THE MISSION.

6. THE DESCRIPTION PRESENTED IN THE PID OF THE RESULTS OF

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