

# **Annual Budget Submission**

**FY 1988**

**PANAMA**



July 1986

**Agency for International Development  
Washington, D.C.**

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PANAMA -

FY1988 ANNUAL BUDGET SUBMISSION

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FY1988 ANNUAL BUDGET SUBMISSION

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FY 1988 ANNUAL BUDGET SUBMISSION  
 TABLE 1 - LONG RANGE PLAN BY APPROPRIATION ACCOUNT (\$000)

	FY 1985	FY 1986	---FY 1987---		FY 1988	-----PLANNING PERIOD-----				
	ACTUAL	ESTIMATE	CP	ESTIMATE	AAPL	1989	1990	1991	1992	
<b>AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION</b>										
TOTAL	8,866	9,187	8,300	8,300	13,238	18,500	24,500	32,941	19,500	
GRANTS	4,906	5,609	3,300	2,500	5,238	8,000	11,500	13,233	6,500	
LOANS	3,960	3,578	5,000	5,800	8,000	10,500	13,000	19,708	13,000	
<b>POPULATION PLANNING</b>										
TOTAL	89	100	0	100	100	0	0	0	0	
GRANTS	89	100	0	100	100	0	0	0	0	
LOANS	0	0	0	0	0	0	0	0	0	
(CENT PROC COMM)	(328)	0	0	0	0	0	0	0	0	
<b>EDUCATION</b>										
TOTAL	(312)	946	2,500	500	3,500	4,500	500	500	400	
GRANTS	2,389	946	1,500	500	2,500	3,000	500	500	400	
LOANS	(2,701)	0	1,000	0	1,000	1,500	0	0	0	
<b>SELECTED DEVELOPMENT ACTIVITIES</b>										
TOTAL	5,269	8,802	7,300	9,200	7,662	10,000	10,000	4,559	4,100	
GRANTS	2,864	5,153	3,300	5,075	3,600	5,000	7,000	3,613	2,600	
LOANS	2,405	3,649	4,000	4,125	4,062	5,000	3,000	946	1,500	
<b>SUBTOTAL FUNCTIONAL ACCOUNTS</b>										
TOTAL	13,912	19,035	18,100	18,100	24,500	33,000	35,000	38,000	24,000	
GRANTS	10,248	11,808	8,100	8,175	11,438	16,000	19,000	17,346	9,500	
LOANS	3,664	7,227	10,000	9,925	13,062	17,000	16,000	20,654	14,500	
<b>TOTAL DA ACCOUNT</b>										
TOTAL	13,912	19,035	18,100	18,100	24,500	33,000	35,000	38,000	24,000	
GRANTS	10,248	11,808	8,100	8,175	11,438	16,000	19,000	17,346	9,500	
LOANS	3,664	7,227	10,000	9,925	13,062	17,000	16,000	20,654	14,500	
<b>ECONOMIC SUPPORT FUND</b>										
TOTAL	20,000	5,742	28,000	28,000	35,000	45,000	45,000	45,000	45,000	
GRANTS	20,000	5,742	28,000	28,000	35,000	45,000	45,000	45,000	45,000	
LOANS	0	0	0	0	0	0	0	0	0	
<b>DA AND ESF TOTAL</b>										
TOTAL	33,912	24,777	46,100	46,100	59,500	78,000	80,000	83,000	69,000	
GRANTS	30,248	17,550	36,100	36,175	46,438	61,000	64,000	62,346	54,500	
LOANS	3,664	7,227	10,000	9,925	13,062	17,000	16,000	20,654	14,500	
<b>HOUSING GUARANTIES</b>										
	25,000	25,000	0	0	0	0	0	0	0	





525 - PANAMA  
 FY 1988 ANNUAL BUDGET SUBMISSION  
 TABLE IV - PROJECT BUDGET DATA  
 BUREAU FOR LATIN AMERICA AND CARIBBEAN

PROJECT NUMBER AND TITLE	ESTIMATED U.S. DOLLAR COST (0000)										SPECIAL CODES	ITEM NO
	ORIG. DATE	-TOTAL COST- AUTH	ORIG. PLAN	THRU FY85	ORIG. FY86	ORIG. FY87	ORIG. FY88	ORIG. FY89	ORIG. FY90	ORIG. FY91		
<b>SELECTED DEVELOPMENT ACTIVITIES</b>												
525-0000 PROGRAM DEVELOPMENT & SUPPORT	6	44	C	---	12,940	491	759	750	(13,718)	500	500	500
<b>SPECIAL DEVELOPMENT ACTIVITIES</b>												
525-0101	6	44	C	---	525	1	100	100	(625)	100	100	100
<b>INV. COUNCIL OF PANAMA</b>												
525-0239	6	83	83	200	200	92	0	92	0	0	0	0
	L	83	83	3,773	3,773	3,065	0	1,000	0	0	2,065	0
<b>SMALL BUSINESS DEVELOPMENT</b>												
525-0240	6	84	86	3,000	2,000	918	1,000	500	0	0	500	0
	L	84	87	6,000	4,275	4,275	1,225	1,500	500	500	1,500	0
<b>DEVELOPMENT POLICY STUDIES</b>												
525-0250	6	85	87	3,000	1,197	966	1,803	1,000	0	0	1,000	0
<b>SHELTER &amp; URBAN PLANNING</b>												
525-0252	6	84	84	250	250	225	0	225	0	0	0	0
<b>PRIVATE SECTOR SCHOLARSHIP FUNDATION - DPS</b>												
525-0258	6	84	85	750	750	152	0	152	0	0	0	0
<b>PRIVATE SECTOR EXPORT FINANCE</b>												
525-0261	6	86	87	0	1,000	0	1,000	0	300	300	800	0
	L	86	93	0	18,000	0	2,424	0	15,376	3,000	2,000	3,000
<b>PRODUCT DEVELOPMENT &amp; PRODUCTIVITY IMPROVEMENT</b>												
525-0272	6	87	90	0	10,000	0	0	0	10,000	3,000	0	2,000
<b>STRENGTHENING LOCAL GOVERNMENT</b>												
525-0282	6	87	91	0	7,500	0	0	0	7,500	1,000	750	1,000
	L	87	91	0	5,000	0	0	0	5,000	625	250	1,062
<b>PRIVATE SECTOR HOUSING</b>												
525-0287	6	86	87	0	675	0	0	500	0	175	175	200
<b>APPROPRIATION</b>												
TOTAL				16,973	59,448	25,938	10,185	8,802	5,319	24,788	9,200	9,665
GRANT				7,200	26,475	17,890	2,845	5,153	2,819	3,632	5,075	3,850
LOAN				9,773	32,973	8,048	7,340	3,649	2,500	21,076	4,125	5,815
<b>FUNCTIONAL ACCOUNT</b>												
TOTAL				81,776	249,151	90,320	40,634	19,035	29,541	139,794	18,100	27,487
GRANT				23,568	87,443	34,997	12,205	11,808	8,430	41,738	8,175	11,322
LOAN				58,208	161,708	55,323	28,429	7,227	12,111	98,056	9,925	16,165

\*/ Includes \$400 in reobligations  
 \*\*/ Includes \$370 in reobligations

525 - PANAMA

FY 1968 ANNUAL BUDGET SUBMISSION  
 TABLE IV - PROJECT BUDGET DATA  
 BUREAU FOR LATIN AMERICA AND CARIBBEAN

PROJECT NUMBER AND TITLE  
 OBLIG. DATE INIT FIN AUTH PLAN TOTAL COST- THRU FY85 OBLIG. THROUGH FY86 ESTIMATED U.S. DOLLAR COST (4000) FY 85 FY 1986 MORTGAGE FY 1987 OBLIG. THROUGH FY 86 OBLIG. THROUGH FY 86 OBLIG. THROUGH FY 86 OBLIG. THROUGH FY 86  
 L INITIAL FIN AUTH PLAN TOTAL COST- THRU FY85 OBLIG. THROUGH FY86 ESTIMATED U.S. DOLLAR COST (4000) FY 85 FY 1986 MORTGAGE FY 1987 OBLIG. THROUGH FY 86 OBLIG. THROUGH FY 86 OBLIG. THROUGH FY 86 OBLIG. THROUGH FY 86  
 SPECIAL CODES

ECONOMIC SUPPORT FUNDS

525-0284 FINANCIAL STABILIZATION & ECONOMIC SUPPORT

	50,000	298,742	50,000	0	5,742	5,742	243,000	28,000	28,000	28,000	35,000
APPROPRIATION											
TOTAL	50,000	298,742	50,000	0	5,742	5,742	243,000	28,000	28,000	28,000	35,000
GRANT	50,000	298,742	50,000	0	5,742	5,742	243,000	28,000	28,000	28,000	35,000
LOAN	0	0	0	0	0	0	0	0	0	0	0
COUNTRY TOTAL											
TOTAL	131,776	547,893	140,326	40,634	24,777	24,283	382,796	46,100	55,687	59,500	
GRANT	73,568	386,385	84,697	12,205	17,550	16,172	284,738	36,173	39,322	44,438	
LOAN	58,208	161,508	56,223	28,429	7,227	12,111	98,058	9,925	16,365	15,062	

AID PROGRAM IN FY 1988  
ANNUAL BUDGET SUBMISSION  
TABLE V - PROPOSED PROGRAM RANKING

RANK	PROJECT	TITLE	NEW/ CONT	LOAN/ GRANT	APPROP	PROGRAM FUNDING (\$000)	
						INCR	CUM
1	525-K-604	Financial Stab. and Economic Recovery	N	G	ES	35,000	35,000
2	525-0000	Program Development and Support	0	G		1,600	36,600
3	597-0001	Central American Peace Scholarships	0	G	EH	(13,130)	36,600
4	525-0248	Natural Resource Management	0	G/L	FN	4,000	40,600
5	525-0261	Private Sector Export Finance	0	G/L	SD	3,000	43,600
6	525-0247	Ag. Policy Formulation and Mgmt.	0	G	FN	1,138	44,738
7	525-0266	Agriculture Sector Loan	0	L	FN	3,000	47,738
8	525-0287	Private Sector Housing	0	G	SD	0	47,738
9	525-0258	Private Sector Scholarships	0	G	SD	0	47,738
10	525-0282	Strengthening Local Government	0	G/L	SD	2,062	49,800
11	525-0272	Product Dev. and Productivity Imp.	0	G	SD	2,000	51,800
12	525-0280	Private Enterprise Support	N	G/L	EH	3,000	54,800
13	525-0227	Agriculture Technology Transfer	0	G/L	FN	0	54,800
14	525-0222	Agricultural Cooperative Marketing	0	G/L	FN	0	54,800
15	525-0240	Small Business Development	0	G/L	SD	0	54,800
16	525-0285	Zamorano Scholarships	0	G	FN	600	55,400
17	525-0278	Land Titling	N	G/L	FN	2,000	57,400
18	525-0286	Livestock Production and Marketing	N	G/L	FN	2,000	59,400
19	525-0275	Industrial Relation Services	0	G	EH	0	59,400
20	525-0257	Natural Resources Education	0	G	FN	0	59,400
21	525-0281	PANAJURU Local Scholarships	0	G	FN	0	59,400
22	525-0101	Selected Development Activities	0	G	SD	100	59,500

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Agency System on Research

1. Project Number: 525-0180

Appropriation: FN L/G

Circle Loan or Grant

Type Research: (Circle A, B, D or I):

A - Applied: B - Basic: D - Development: I - Instit. Bldg.

Office Name: USAID/PANAMA

Office Symbol: AGR

Project Title: AGRICULTURAL TECHNOLOGY DEVELOPMENT

Project Officer: DRGA, DONALD A.

2. Purpose of Research

- A. To assist Panama to establish an AG research capability that will help small
- B. operators increase their land and labor productivity and ultimately their
- C. income and employment opportunities.
- D.

3. Progress Statement

- A. Project carrying out research in grain crops, animal production, mixed
- B. cropping. Investigations being carried out in 8 priority areas, including
- C. corn, onions, sorghum, rice, beef production, leading to intensifying
- D. production and double cropping.

4. Date Progress Statement Submitted: 05/23/86

5. Life of Project Research Cost (Thousands of Dollars)

A. Authorized: 6,500

B. Planned: 6,500

# Allocation of Research Funds by Fiscal Year

## 6. Research Budget by Fiscal Year (Thousands of Dollars)

FY 85	6000
FY 86	500
FY 87	--
FY 88	--

## 7. Research Categories (Percentage of Item 6, Budget by FY)

Category	#1	AG42	#2	AG20	#3	AG13	#4
FY 85		45		30		25	
FY 86		50		30		20	
FY 87		--		--		--	
FY 88		--		--		--	

NOTE: Use continuation sheet for additional codes.

## 8. Project Sites (Percentage of Item 6, Budget by FY)

Geographic Code	#1	525	#2	#3	#4
FY 85		100			
FY 86		100			
FY 87		100			
FY 88		100			

NOTE: Use continuation sheet for additional codes.

## 9. Implementing Agencies and Type of Agency (Percentage of Item 6, Budget by FY)

Agency	IDIAP	IARC	RUTGERS
Agency Type	FM20	IRIO	UCIO
FY 85	80	5	15
FY 86	80	5	15
FY 87	--	-	--
FY 88	--	-	--

Note: Use continuation sheet for additional agencies.

Agency System on Research

1. Project Number: 525-0180

Appropriation: FN L/G Circle Loan or Grant

Type Research: (Circle A, B, D or I):

A - Applied: B - Basic: D - Development: I - Instit. Bldg.

Office Name: USAID/PANAMA

Office Symbol: AGR

Project Title: AGRICULTURAL TECHNOLOGY DEVELOPMENT

Project Officer: DRGA, DON A.

2. Purpose of Research:

- A. To assist Panama to establish an AG research capability that will help
- B. small operators increase their land and labor productivity and ultimately
- C. their income and employment opportunities.
- D.

3. Progress Statement

- A. Project carrying out research in grain crops, animal production, mixed
- B. cropping. Investigations being carried out in eight priority areas, includi
- C. corn, onions, sorghum, rice, beef production, leading to intensifying
- D. production and double cropping.

4. Date Progress Statement Submitted: 05/23/86

5. Life of Project Research Cost (Thousands of Dollars)

A. Authorized: 4,700

B. Planned: 4,700

Allocation of Research Funds by Fiscal Year

6. Research Budget by Fiscal Year (Thousands of Dollars)

FY 85	4,400
FY 86	300
FY 87	--
FY 88	--

7. Research Categories (Percentage of Item 6, Budget by FY)

Category	#1	AG50	#2	#3	#4
FY 85		100			
FY 86		100			
FY 87		--			
FY 88		--			

NOTE: Use continuation sheet for additional codes.

8. Project Sites (Percentage of Item 6, Budget by FY)

Geographic Code	#1	525	#2	#3	#4
FY 85		100			
FY 86		100			
FY 87		100			
FY 88		100			

NOTE: Use continuation sheet for additional codes.

9. Implementing Agencies and Type of Agency (Percentage of Item 6, Budget by FY)

Agency	IDIAP	RUTGERS	PROPACO
Agency Type	FM20	UCIO	IN20
FY 85	90	5	5
FY 86	90	5	5
FY 87	--	-	-
FY 88	--	-	-

Note: Use continuation sheet for additional agencies.

Agency System on Research

1. Project Number: 525-0247

Appropriation: FN L/G      Circle Loan, or Grant

Type Research: (Circle A, B, D or I):

A - Applied: B - Basic: D - Development: I - Instit. Bldg.

Office Name: USAID/PANAMA

Office Symbol: AGR

Project Title: AGR POLICY FORMULATION AND MGT

Project Officer: CONKLIN, FRANK S.

2. Purpose of Research:

- A. Improve institutional capacity of MIDA to analyze, design and implement
- B. agricultural policies; manage and coordinate programs and projects; provide
- C. information services aimed at increasing overall production and efficiency
- D. of the Agriculture Sector.

3. Progress Statement

- A. Project personnel participated in formulation, review and analysis of new
- B. agricultural incentives legislation, commodity reports on rice, industrial
- C. tomato, beef, poultry, maize, sorghum, milk and dairy products and beans
- D. have been prepared.

4. Date Progress Statement Submitted: 05/23 86

5. Life of Project Research Cost (Thousands <sup>C</sup> Dollars)

A. Authorized: 5,000

B. Planned: 5,000

Allocation of Research Funds by Fiscal Year

6. Research Budget by Fiscal Year (Thousands of Dollars)

FY 85	1,500
FY 86	1,500
FY 87	1,300
FY 88	700

7. Research Categories (Percentage of Item 6, Budget by FY)

Category	#1	AG80	#2	AG90	#3	#4
FY 85		25		75		
FY 86		25		75		
FY 87		25		75		
FY 88		25		75		

NOTE: Use continuation sheet for additional codes.

8. Project Sites (Percentage of Item 6, Budget by FY)

Geographic Code	#1	525	#2	#3	#4
FY 85		100			
FY 86		100			
FY 87		100			
FY 88		100			

NOTE: Use continuation sheet for additional codes.

9. Implementing Agencies and Type of Agency (Percentage of Item 6, Budget by FY)

Agency	MIDA/DNPS	PRAGMA
Agency Type	FM20	IN20
FY 85	40	60
FY 86	40	60
FY 87	40	60
FY 88	40	60

Note: Use continuation sheet for additional agencies.

Agency System on Research

1. Project Number: 525-0191

Appropriation: FN L/G

Circle Loan or Grant

Type Research: (Circle A, B, D or I):

A - Applied; B - Basic; D - Development; I - Instit. Bldg.

Office Name: USAID/PANAMA

Office Symbol: AGR

Project Title: WATERSHED MANAGEMENT

Project Officer: SCHAER, DAVID H.

2. Purpose of Research

A. To provide information to improve decision making and field activities in

B. Natural Resources Management. Initially, three areas were selected for

C. study: erosion rates, water quality, and tropical hardwood technology.

D.

3. Progress Statement

A. Project ends 06/30/86. Wood technology lab has been established.

B. Professionals trained. RENARE has coordinated with existing research and

C. monitoring programs for water quality and erosion carried out by Panama

D. Canal Commission and hydro-electric institute.

4. Date Progress Statement Submitted: 05/23/86

5. Life of Project Research Cost (Thousands of Dollars)

A. Authorized: 200

B. Planned: 200

Allocation of Research Funds by Fiscal Year

6. Research Budget by Fiscal Year (Thousands of Dollars)

FY 85	50
FY 86	100
FY 87	--
FY 88	--

7. Research Categories (Percentage of Item 6, Budget by FY)

Category	#1	AG 90	#2	#3	#4
FY 85		100			
FY 86		100			
FY 87		--			
FY 88		--			

NOTE: Use continuation sheet for additional codes.

8. Project Sites (Percentage of Item 6, Budget by FY)

Geographic Code	#1	525	#2	#3	#4
FY 85		100			
FY 86		100			
FY 87		--			
FY 88		--			

NOTE: Use continuation sheet for additional codes.

9. Implementing Agencies and Type of Agency (Percentage of Item 6, Budget by FY)

Agency RENARE	Agency Type	FN 90
FY 85		100
FY 86		100
FY 87		--
FY 88		--

Note: Use continuation sheet for additional agencies.

Agency System on Research

1. Project Number: 525-0250

Appropriation: ESF

Circle Loan or Grant

Type Research: (Circle A, B, D or I):

A - Applied; B - Basic; D - Development; I - Instit. Bldg.

Office Name: USAID/PANAMA

Office Symbol: ODP

Project Title: Development Policy Studies

Project Officer: Bernard H. Masters

2. Purpose of Research

- A. To provide the basis for formulating a progressive comprehensive and
- B. coherent set of economic policies designed to facilitate economic growth
- C. with emphasis on the initiative and investment of the private sector.
- D.

3. Progress Statement

- A. The project completed fifteen major studies, a preliminary National Housing Policy draft,
- B. conducted a seminar on the national income accounts and training in tax administration.
- C. Consultancy services were provided to improve efficiency of Ministry of Finance and
- D. to initiate feasibility study of Centerport.

4. Date Progress Statement Submitted: 5/30/86

5. Life of Project Research Cost (Thousands of Dollars)

- A. Authorized: \$3,000
- B. Planned: \$3,000

Allocation of Research Funds by Fiscal Year

6. Research Budget by Fiscal Year (Thousands of Dollars)

FY 85	500
FY 86	800
FY 87	1,200
FY 88	500

7. Research Categories (Percentage of Item 6, Budget by FY)

Category	#1	#2	#3	#4
	<u>    RH10    </u>	<u>    —    </u>	<u>    —    </u>	<u>    —    </u>
FY 85	100			
FY 86	100			
FY 87	100			
FY 88	100			

NOTE: Use continuation sheet for additional codes.

8. Project Sites (Percentage of Item 6, Budget by FY)

Geographic Code	#1	#2	#3	#4
	<u>    525    </u>	<u>    —    </u>	<u>    —    </u>	<u>    —    </u>
FY 85	100%			
FY 86	100%			
FY 87	100%			
FY 88	100%			

NOTE: Use continuation sheet for additional codes.

9. Implementing Agencies and Type of Agency (Percentage of Item 6, Budget by FY)

Agency	Ministry of Planning
Agency Type	FM20
FY 85	100%
FY 86	100%
FY 87	100%
FY 88	100%

Note: Use continuation sheet for additional agencies.

## PRIVATIZATION PLAN

USAID/Panama will carry out a plan designed to induce and support a major government-owned enterprises divestiture effort by the GOP. The plan is predicated upon commitments already obtained from the GOP by the IBRD through Structural Adjustment Loan Agreements (SAL) and by the USAID ESF agreements of August 1985.

The IBRD agreements call for the GOP to divest one sugar mill, a seed production and distribution entity and an agricultural machinery and construction operation, as well as one of three other government-owned enterprises designated by the IBRD.

The USAID agreements call for professional review and evaluation of all state owned enterprises and recommendations for their disposal through privatization or other form of divestiture. It also calls for divestiture of three grain storage silos.

The agreements thus establish short term divestiture targets and requirements for a continuing divestiture program.

### Status of GOP Divestiture Effort

The GOP has begun to respond to the SAL and ESF agreements by preparing for a rational and organized divestiture effort, carrying out evaluations of selected government-owned enterprises, and actively promoting the sale of: the Contadora Hotel, Aero Perlas and Cítricos of Chiriquí.

USAID instigated the formation of an ad hoc divestiture advisory committee, consisting of key representatives of the public and private sectors, and arranged for their attendance at the PRE sponsored Privatization Conference. This was followed by recruitment of an advisory team from the AID/W funded Center for Privatization which made specific recommendations for the organization and operation of a formalized divestiture team. These recommendations are currently being reviewed by the GOP and are expected to lay the basis for the operation of an office devoted exclusively to divestiture.

Consultants contracted by the Ministry of Planning have, since mid 1984, been reviewing the condition and operation of nine agriculture government-owned enterprises: Instituto de Mercadeo Agropecuario (IMA), Corporación Azucarera La Victoria (CALV), Empresa Nacional de Semillas (ENASEM), Empresa Nacional de Maquinaria Agrícola (ENDEMA), Cítricos de Chiriquí, Corporación Bananera Atlántico, Asentamientos Campesinos and Instituto de Seguro Agropecuario (ISA). They have made recommendations for (1) outright sale of Cítricos, (2) divestiture of some divisions of La Victoria; (3) a gradual change in the role of IMA, from a market intervener to a market information center, (4) transfer of some functions of ENASEM to Instituto de Investigación Agropecuaria (IDIAP) and others to private enterprise, (5) transfer of distinct functions of ENDEMA to an agricultural products association and others to the Ministry of Public Works (MOP), (6) privatization of Corporacion Bananera Atlántico, (7) closure of some asentamientos and continued government operation of others, (8) expansion of the operations of ISA, and (9) the absorption of Banco de Desarrollo Agrpecuario (BDA) by the Banco Nacional de Panama (BNP).

The recommendation in respect to Cítricos and ISA have been accepted. All of the other recommendations are being resisted, in varying degree, by workers, workers' associations, political interests and affected bureaucrats.

#### USAID Divestiture Strategy

The USAID strategy consists of two major thrusts. The first is to obtain serious commitments from the GOP for divestiture of government-owned enterprises and the second is to assist the GOP in the tasks entailed by those commitments. In short, to obtain an acceptable divestiture policy and to have that policy carried out.

In pursuit of appropriate policy commitments, USAID has relied on policy dialogue, the results of which are formalized in covenants of the ESF agreement of August 1985. USAID has also provided training and technical assistance to those who may effect both policy formation and policy implementation. We intend to continue technical assistance at the policy level so as to secure more precision in the expression of divestiture policy so that divestiture activities which are to be carried out can respond to clear and cogent governmental directives. We will urge the expansion of the GOP policy statements to include the following:

1. That all government-owned enterprises be considered for possible divestiture and that these be listed by name.

2. That criteria for divestiture be established a priori and that each listed entity be evaluated in accordance with that criteria.

3. That a distinction be made between those government owned enterprises which were developed as part of an economic/political process and those which were acquired as a result of defaults on government loans. We would urge that the latter be scheduled for immediate divestiture.

We recognize that powerful forces, some of which represent groups upon which the government depends for support, will oppose divestiture of at least some of the government-owned enterprises. We therefore anticipate that the GOP may not, in the short run, be able to respond fully to our recommendation. We do, however, anticipate that a serious divestiture effort will be made, that three divestitures will take place (on average) each year, and that precedents established by those divestitures will facilitate the divestiture of other government-owned enterprises, whose disposal may, at present, be inopportune.

In its current structural agreement with the IBRD, the GOP has agreed to reduce government employment by 2% per year. This agreement complements the GOP divestiture commitment which, when carried out, would contribute substantially to reduction of government's payrolls.

USAID will consider direct support of a GOP reduction in force program by providing funding for buy-outs of personnel who are removed from the public payroll as a result of divestiture. A condition will be negotiated with the GOP which will call for reducing the number of government employees by an amount equal to the staff levels of divested enterprises. The formula would permit transfer of employees of divested enterprises to other agencies of Government, while yielding a net overall reduction in the workforce. The formula should also remove some of the basis for resistance to divestiture.

## Activity Plan

The dispersion of divestiture activities throughout the GOP has led to uneven development of the national effort. Neither the USAID nor the GOP fully appreciated the complexity of the tasks involved in the divestiture process. Moreover, the GOP's preoccupation with, and its difficulty in securing passage of three major pieces of legislation - labor code reform, a new industrial law and a new agricultural law - understandably led to concentration of effort on these matters, at the expense of other concerns.

With the passage of those critical laws, which were of the highest priority, the GOP is in a position to tackle the next series of related issues viz. divestiture policy and personnel policy. The actions described herein are intended to facilitate and accelerate the new GOP effort.

1. Establish, with the GOP, a schedule and workplan for divestiture actions over the period FY 1987 - FY 1988. The workplan will specify targets which can be reasonably met from an intensive effort by the GOP. It will be organized in two stages. The first, an organizational and strategic design phase, will be scheduled for completion by August 31, 1986. This will call for the completion of the following tasks:

a. Designate, empower, fully staff and fund an office dedicated to divestiture.

b. Compile a list of all government-owned enterprises and announce those which will be initially scheduled for divestiture, and those which will be evaluated for subsequent divestiture. At least four of the eight agricultural government-owned enterprises, which have been evaluated by the Management Analysis Center (under control with MIPPE) are expected to be initially scheduled for divestiture, along with enterprises which have been acquired through default on government loans.

c. Establish criteria for divestiture of government-owned enterprises which have been selected for evaluation in FY87 and 88.

d. Prepare and negotiate contracts with external consultants for evaluation for at least eight government-owned enterprises during the period August 1986 through August of 1987.

The second series of scheduled actions will commence in September of 1986 and continue through August of 1988. These will consist of time phased activities designed to produce specifying targeted results during the two-year period. During that time, the GOP would carry out the following tasks:

a. Prepare, not later than September 30, 1986, a divestiture strategy and work plan which would, over the two-year period, result in no less than six divestitures and evaluate and make divestiture recommendations for not less than 20 state enterprises.

b. Carry out a preliminary analysis of the net fiscal impact of all state enterprises.

c. Maintain funding for the divestiture office.

d. Create a Private Sector Divestiture Committee, consisting of representatives of business and labor associations to advise and participate in the divestiture effort and to help create public awareness and acceptance of the need for divestiture.

The USAID will assist the GOP in the accomplishment of these tasks by providing consultancy services through the AID funded Center for Privatization and other appropriate sources. The consultants will assist in the development of divestiture criteria selection of targets, in preparation of terms of reference for evaluative studies, in preparation of divestiture strategies, and development of a schedule for the ensuing two-year period.

2. In May/June 1986, USAID will negotiate an amendment to the 1985 ESF agreement which will establish the basis for disbursement of an additional \$5.7 million budget support grant. In the amended agreement, the GOP would agree to reduce executive branch personnel and personnel costs through a process of attrition; and to produce, and forward to USAID by December of 1986, complete information on personnel levels and annual personnel costs of all government agencies. This information will be utilized as a benchmark to measure the effect of the attrition and the divestiture process on the GOP personnel budget.

3. Employee resistance is the major obstacle to divestiture. In order to reduce the impact of dismissal of employees of divested government-owned enterprises, a program of compensation has been suggested. USAID will, in the period May/June of 1986, fund the services of a specialist to make recommendations for, a personnel buy-out program as an integral part of the GOP divestiture effort. We anticipate that the buy-outs would be necessary in all cases where government-owned enterprises are closed down and probably necessary in most cases as a prelude to privatization.

Should such a program appear feasible and effective USAID will require its establishment, under the proposed FY1987 ESF agreement.

4. Upon completion of the GOP divestiture strategy and work plan, USAID will review technical assistance requirements with the GOP, and, as appropriate, fund such assistance.

5. The mutually supportive linkage among divestiture, personnel reduction, and fiscal austerity measures will be maintained and strengthened through continue dialogue, conditional funding and technical assistance as required. The USAID will continually monitor the GOP efforts, exchange information and plans with other external donors, and in response to a serious and successful divestiture effort would increase its level of assistance.