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Panama
Action Plan FY 1987-1988

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USAID/PANAMA ACTION PLAN

FY 1987 - FY 1988

April 4, 1986

USAID/Panama Action Plan
FY 1987 - FY 1988

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4/4/86

USAID/Panama Action Plan
FY 1987 - FY 1988

Part I

Introduction

On a national level two major events occurred in the last year which are of major significance in implementing the Jackson Plan or Central America Initiative in Panama. Just a few weeks prior to the completion of this Action Plan, President Delvalle, with the encouragement and active support of the Panamanian military, succeeded in gaining the Legislature's approval of three major economic reform laws. The legislation signalled a shift away from a closed, import-substitution model of development. How effective and how fast the changes occur in the economy will depend on how the new laws are in fact implemented, but the fact that the GOP was willing to proceed with the reforms is indeed a significant breakthrough.

Another major event was the setback in Panama's progress toward more democratic government. The Panama Defense Forces (PDF) forced Nicolas Ardito Barletta to resign from the Presidency on September 28, 1985, just two weeks short of completing one year in office. While the appearances of constitutional civilian government were maintained by having First Vice President Eric Arturo Delvalle succeed Barletta, the change was clearly dictated by the military and the new President and his cabinet are more dependent on the PDF than was the preceding government. Thus, Panama, unlike its Central American neighbors, has lost ground, and near-term prospects for strengthening democracy at the national level are problematical.

Goals and Strategy

A. Financial Stabilization

In Panama, financial instability is the result of the growth of the public sector and the huge debt it has accumulated (a total debt over 100% of GDP with a foreign debt component equaling 83% of GDP), neither of which can be supported by the stagnating productive sectors of the economy. USAID'S goals therefore are to:

- reduce the size of the public sector deficit in order to gradually make the debt burden manageable;
- reduce the role and gradually the size of the public sector.

Obviously, the two goals are closely related. Our policy dialogue is coordinated with the IMF and World Bank in support of the first goal. IMF conditionality includes achievement of specific deficit reduction targets. In this area the GOP has made excellent progress. In fact, in 1985 the deficit target of 3.5% of GDP was more than met as 2.5% was achieved. Unfortunately, the reduction was achieved almost entirely at the expense of the modest investment budget, and even to finance the reduced budget deficit, the GOP resorted to borrowing from the National Bank (BNP), thus failing to comply with an IMF performance target. We will encourage adherence to IMF targets and expect the deficit to fall to the 2.0% range in 1988.

With regard to the role and size of the public sector, USAID has been providing analytical support to the GOP, assisting in identifying areas where the private sector should replace the public sector and where the public regulatory role should be reduced or eliminated. In FY 1987 and FY 1988 we will include conditionality in our ESF agreements to achieve:

- privatization of at least 6 state-owned enterprises;
- reductions in the Agricultural Marketing Institute's (IMA) interventions in the domestic and international marketing chain;
- gradual reductions in central government employment (tentative until we complete assessment of the ways to address the objective and its political feasibility).

Recent progress in major economic reforms makes us cautiously optimistic that these new policy changes can be achieved. At the same time we will monitor closely the implementation of the new reform laws and ensure compliance with the covenants of the August 1985 ESF Agreement before proceeding.

B. Laying the Basis for Long-Term Growth

Preliminary estimates just released report a notable rebound in GDP growth in 1985 to 3.3%. The growth leaders were the Colon Free Zone and the Canal with other sectors showing minor gains or none at all. Unemployment continues to rise (now officially at 12%). Industry and agriculture grew very little and the construction sector lost ground.

Our analysis suggests that long-term growth potential exists in the agricultural, industrial and service sectors.

In agriculture and agro-industry, we believe there can be important growth — from 15% of GDP up to 19 or 20% — in five years. Important gains

can be made in production and employment. The principal obstacles are: a) public policy, particularly the striving for self-sufficiency in all basic foods without regard to cost and pricing policy; b) low levels of technology and productivity; c) inefficient state enterprises; and d) a social services approach by the state rather than support to productive private farmers. Agriculture will be a major area of USAID assistance. The new agricultural law provides a workable framework for reorienting Panamanian agriculture towards production of commodities where there is a comparative advantage for export and domestic consumption. Our focus will continue on policy development. There is growing acceptance of the emphasis on the production of commodities which make economic sense. Through an existing project we will support freeing agricultural prices to provide incentives for production to shift in that direction. Our policy dialogue and ESF conditionality will stress privatization of state agricultural enterprises and reduction of the role of IMA in marketing. Technology development and extension assistance will be modified to incorporate the private sector and will be oriented toward commodities with significant economic potential, beef, shrimp and fruits and vegetables being leading examples.

The second structural adjustment loan (SAL II), as well as future ESF, will be conditioned on actions designed to improve public sector efficiency and to reduce the role of the state, particularly through a divestiture program. Additionally, the World Bank is planning to appraise a second technical assistance loan (TAL II) that will provide funds to carry out management audits of the most important state-owned enterprises, including the power company (IRHE), the telephone company (INTEL), the water works (IDAAN), and the port authority (APN).

Private industrial development will be another area of significant AID involvement. The principal constraints to industrial growth seem to be: a) excessive protection reflecting an import substitution mentality with resultant inefficiencies; b) an overly restrictive labor law which increases costs and acts as a strong disincentive to employment; c) high costs for other factors; d) shortage of medium and long term investment credit; and e) overactive public regulatory machinery. The GOP has accepted the need to shift to an export emphasis and has taken an important step in that direction with the passage of the Industrial Incentives Law. Also, the Labor Code modification is real progress. USAID is supporting the creation of a private export finance institution to address the specialized credit constraint. We will also continue to promote investments in Panamanian industry. With respect to assisting industry to become cost competitive, the World Bank and other donors will play a lead role in an attempt to reduce energy costs and port charges. USAID assistance will be targeted on increasing the productive efficiency of individual firms. We will use project assistance linked to policy changes to alter the role of the Ministry of Commerce and Industry (MICI) — the objective will be to reduce its regulatory role and its procedural requirements and increase its ability to facilitate private sector activities in areas such as trade promotion. Taken together, these efforts should begin to show significant results in the form of new investment and employment creation by FY1988.

Lastly, USAID will undertake to reverse the trend of natural resources degradation by improving natural resource management. A policy precondition will be the separation of the Renewable Resources agency from the Ministry of Agriculture with the authority to enforce sensible natural resource use laws and to generate its own revenues. Additionally, our assistance will stimulate private reforestation initiatives. By FY 1988 we expect the newly autonomous agency to be in operation and to be generating revenues for its budget. Initial private reforestation efforts should have begun.

C. Equity and Broad Participation in Development

Panama has, in general, made greater progress in equitably sharing the benefits of growth than all its Central American neighbors with the possible exception of Costa Rica. Tremendous progress was made in the 1970's in particular, much of it with USAID assistance. The major problems in this area which we believe USAID can successfully address are:

- unemployment
- scarcity of low-income housing
- shortage of technical and high level training for the disadvantaged

USAID's approach to unemployment will be to stimulate economic growth in a more export-oriented economy, particularly in agriculture and industry, but also including small business. These areas have the greatest potential for new jobs in the medium and long term. In the short term, construction can have an important impact. Happily, achieving the objective of increased employment parallels the target of increasing the availability of adequate housing for lower income Panamanians. The recent modification of the labor code could contribute to removing a major disincentive to employment. In the housing construction subsector recent policy innovations — especially a preferential mortgage interest rate law benefiting lower income potential home owners — are likely to stimulate greater private sector participation in lower cost housing construction and finance. Excessively rigorous norms and standards in housing construction drive up costs and discourage builders. USAID will be addressing this policy issue and we hope to achieve improvements by FY1988.

Housing for Panamanians below the median income level has been regarded as a public sector responsibility. The Ministry of Housing has failed to meet most of the need and has been very inefficient in what it has done. USAID's strategy consists of four principal elements:

- preparation and promulgation of a national housing policy which defines clearly the roles of the public and private sectors with emphasis on the latter

- assistance in administration and financial management to increase public sector efficiency
- phasing out direct HG financing of public sector housing
- stimulating and directly assisting the private sector in housing finance to increase their role to the maximum extent possible

In the area of training, USAID, principally through the Central American Peace Scholarships Project, is greatly expanding training opportunities in the U. S. Potential leaders in a variety of fields are our principal targets for a wide range of training for a projected 1250 beneficiaries. A principal selection criterion will be socio-economic disadvantage.

D. Democratic Institutions and Human Rights

As noted earlier, progress at a national level was sharply set back in 1985. Obviously, specific elements of USAID assistance are not able to address the problem at that level. However, we do believe that USAID can effectively assist key constituent elements of a more democratic system. Those elements are:

- the administration of justice
- elected officials at the local level
- rural youth and cooperative members
- trade unionists
- potential leaders in various sectors of the society

This is a new area of USAID focus as a result of the Central America Initiative and it is most appropriate for Panama in this decade. The system of justice administration is being analyzed at present and a more precise strategy to be implemented through the Regional Administration of Justice Project will be prepared.

An opportunity is perceived at the level of local government where 65 mayors were freely elected for the first time in over 16 years. These mayors are finding that they are often ill-prepared for their new roles and have very meager resources at their disposal. Virtually all resources — financial, physical and human — have long come from the central government, a government which will have to live with austerity for several years to come. A new

project will provide assistance to strengthen local officials' capacity to manage resources and to execute essential development projects in their communities. We also expect to provide CAPS opportunities to expose these officials to their U. S. counterparts and the principles of democratic government.

CAPS opportunities will also be provided to a large number and wide range of potential leaders to foster improved understanding of the U. S. and the principles of democracy. Assistance to trade unions will continue through AIFLD and be focussed on the unions' ability to be more effective collective bargainers and more enlightened participants in the national economic policy dialogue.

PART II - IMPLEMENTATION - GOALS AND OBJECTIVES

- A. FINANCIAL STABILIZATION
 - A.1 FINANCIAL STABILIZATON
 - A.2 INCREASE EXPORTS
- B. LAYING THE BASIS FOR LONG-TERM GROWTH
 - B.1 INCREASE AGRICULTURAL PRODUCTION
 - B.2 INCREASE INDUSTRIAL PRODUCTION
 - B.3 STRENGTHEN THE PRIVATE SECTOR
 - B.4 INCREASE EXPORTS
 - B.5 MANAGE AND PRESERVE NATURAL RESOURCES
 - B.6 INCREASE EMPLOYMENT
- C. EQUITY AND BROAD PARTICIPATION IN DEVELOPMENT
 - C.1 INCREASE EMPLOYMENT
 - C.2 EXPAND ACCESS TO LOW-COST HOUSING
 - C.3 INCREASE PARTICIPANT TRAINING
- D. DEMOCRATIC INSTITUTIONS AND HUMAN RIGHTS
 - D.1 PROMOTE DEMOCRATIC INSTITUTIONS
 - D.2 INCREASE PARTICIPANT TRAINING

A. GOAL - FINANCIAL STABILIZATION

OBJECTIVE CATEGORY: A.1 FINANCIAL STABILIZATION: Reduction of the consolidated public sector deficit as a percentage of GDP while maintaining the investment budget at adequate levels.

KEY ASSUMPTIONS:

1. Continuation of low world interest rates.
2. Commitment on the part of the GOP to impose austerity, divest enterprises and particularly a commitment to reduce payroll costs.
3. Moderate economic growth.
4. Private sector buyers of parastatals are forthcoming.

PERFORMANCE INDICATORS:

Overall Deficit of the consolidated public sector as a percentage of GDP.

Base period indicator	_____ 1985	<u>2.5</u> percent
Benchmark performance indicator	_____ 1988	<u>2.0</u> percent
Target date indicator	_____ 1990	<u>1.5</u> percent

BENCHMARKS:

1. Commission to prepare a report to be submitted to Legislature which evaluates the financial viability of all state-owned enterprises to be used as the basis for decisions regarding divestiture. 4th Qtr. FY 86
2. Executive to prepare and present to the Legislature a Civil Service bill. 4th Qtr. FY 86
3. At least 6 state enterprises divested 4th Qtr. FY 88

POLICY DIALOGUE ACTIONS:

A major thrust will be placed on the implementation of measures that would allow domestic agricultural prices to move closer to international prices, and measures designed to reduce the Agriculture Marketing Institute (IMA) role in price determination.

Based on the divestiture study required in the FY 1985 ESF, FY87/88 ESF resources would be used to accelerate the divestiture agreement process through the provision of long-term credit for the buyers, as well as through the use of ESF resources to increase the efficiency of those enterprises. Additionally, ESF resources would be used to provide severance payments for public sector employees affected by the divestiture program. The Mission will discuss the above proposed uses of ESF with the GOP prior to developing a concept paper for AID/W review.

<u>PROJECTS:</u>	<u>NUMBER</u>	<u>TOTAL COST</u>
<u>Continuing:</u>		
Financial Stab. and Eco. Recovery (ESF) II	525-K-602	20,000,000
Development Policy Studies	525-0250	3,000,000
Agriculture Policy Formulation and Mgt.	525-0247	5,000,000

NARRATIVE:

The USAID Policy dialogue with the GOP has concentrated in four broad areas of policy change, namely: a) increases in government efficiency; b) reforms of the labor code designed to increase the flexibility of the labor market; c) changes in the structure of agricultural incentives, giving greater emphasis to export promotion; and d) reductions of industrial protection designed to increase the efficiency of the sector. In relation to c above, the Agriculture Policy Formulation and Management Project has fielded a technical assistance team which has worked with the Ministry of Agriculture in developing the new Agriculture Incentive Law. This law was passed in March, 1986 and provides the basis for motivating, through market signals, increased agricultural production for export.

While the emphasis up to now has been on the drafting of legislation and on carrying out a number of key studies (i.e., on divestiture, and on housing policy), future emphasis of the policy dialogue will be on policy implementation and on reducing the role and size of the public sector, particularly through divestiture and through reductions in payroll.

There was almost no progress in policy change during the Ardito-Barletta administration. With the advent of the Delvalle government, steady progress in policy reform began, culminating in March, 1986, with the passage of laws modifying the labor code and the agricultural and industrial incentive laws. These laws are a significant step in the right direction, and in recognition of this, USAID began to discuss ESF assistance with the GOP, a process that was essentially in abeyance pending GOP action. Additionally, the World Bank is planning to send to Panama an appraisal mission for a second Structural Adjustment Loan (SAL II) during the latter part of April, 1986.

FY87-88 ESF Program

USAID/Panama's dialogue in Financial Stabilization has argued for further allowing market forces to operate in the context of an open export oriented economy. Important policy changes in this direction have been achieved recently. The stabilization program will now emphasize the need to reduce the role of government in productive sectors where free enterprise can operate more efficiently, while assisting the private sector adjust to the changes in economic policy.

The first phase of the Financial Stabilization program initiated in FY85 will conclude this year with a \$5.7 million amendment to last August's \$20.0 million PAAD. The conditionality linked to the program consisted of the preparation of laws towards the structural reform of the economic system (i.e. changes in the labor code, and new agricultural and industrial incentive laws); the privatization of grain silos financed by AID; a report on the status of state enterprises and recommendations on divestiture; the preparation of a civil service law and publishing of a national housing policy sharply defining the roles of the public and private sectors in low-income housing production. Once the GOP meets the above last four conditions, the stage will be set for the implementation of the second phase of the Financial Stabilization program.

The second phase of the Financial Stabilization program will focus on (a) the implementation of a divestiture/liquidation of state enterprises program financed through a fund to be capitalized with FY87-88 ESF resources; the fund would also provide resources to finance improvements to divested enterprises, (b) the implementation of a program to reduce public sector employment through the establishment of a severance fund. This fund would assist public employees of divested/liquidated state enterprises or other public employees cut from the government payroll, during their employment transition to the private sector.

The divestiture fund will (a) provide the necessary long-term financing required by the private sector to purchase liquidated state assets and/or divested enterprises, and (b) from the sale of state assets financed by the fund, provide the GOP with resources needed for budget support and retirement of debt. The severance fund would provide budget support for labor indemnization.

Fiscal Gap Analysis

The formulation of a financial program for 1986 has been delayed for two reasons, first, the GOP was out of compliance with one of the IMF targets at the end of December, 1985. Second, and more importantly, the slow progress in policy reform resulted in great uncertainty with respect to the levels and timing of disbursement of SAL II, ESF funds, and commercial bank funds. These disbursements are crucial for the formulation of a consistent financial program.

An IMF team left Panama at the end of March, 1986, and it reached broad agreement on the parameters of the 1986 financial program. Now that agreement has been reached, USAID will work with the Ministry of Planning on the projections of the operations of the consolidated public sector for the period 1986-1989, and these will be included in the Amendment to the 1985 PAAD.

Coffee Exports

The windfall profits from the rise in coffee prices will have little effect on relieving Panama's financial crisis. Coffee exports from Panama averaged 4,460 kg. per year in the period 1980-1984, and it sold at an average price of \$0.23/kg. below the international price (coffee, ICO indicator price, other mild arabicas, ex-dock New York for prompt shipment). Assuming an average 1986 price is \$4.70/kg., as forecasted by the World Bank, and if Panama exports 4,460 kg., the value of exports would be US\$19.9 million or a windfall of about \$7 million in relation to average prices in the period 1980-84.

DEVELOPMENT POLICY STUDIES PROJECT (DPSP) (525-0250)

The DPSP concluded a number of studies during FY 1985/FY 1986. A total of fifteen major studies were completed and four were published and distributed, and the government has agreed to publish the rest. Additionally, members of the studies team presented the conclusions of the studies to about twenty different private sector and academic groups. Now that the GOP has made significant advances in the definition of its new economic policy, the Minister of Planning and Economic Policy has requested a more active role by the DPSP team in the implementation of economic policy reforms.

NEW PROJECTS:

Financial Stab. and Economic Recovery (ESF) III	FY 1986	\$ 5,742,000*
Financial Stab. and Economic Recovery (ESF) IV	FY 1987	28,000,000
Financial Stab. and Economic Recovery (ESF) V	FY 1988	44,000,000

* The Mission is preparing an amendment to the 1985 ESF for \$5,742,000. As the total funding level of the original PAAD plus the planned amendment does not exceed \$30 million, the Mission Director plans to authorize the amendment.

BUDGETARY IMPACT:

For budgetary impact on all projects see budget tables pages 72-75.

OBJECTIVE CATEGORY: A.2 INCREASE EXPORTS: Increase level of non-traditional exports by \$181.0 million by 1991.

KEY ASSUMPTIONS:

1. Exposure of private sector production to increasingly competitive market pressures will improve the quality and quantity of products both for the domestic and the export market.
2. Government agencies will provide efficient responses to private sector requirements, especially those regulations affecting production.
3. The U.S. market will provide an increasing opportunity for Panamanian producers as a result of rising costs in the Far East, the declining value of the dollar and the changes in article 807 of the U.S. Commercial Code, which will permit Panama to substantially increase its exports.
4. The technology required for production of non-traditional crops is either available in Panama or can be readily obtained through technical assistance.
5. That initial successful small scale exportation of non-traditional crops will generate increased investment in and production of these crops.
6. Demand for non-traditional crops will continue to rise in the U.S. and Europe, and these crops can be produced in Panama and exported on a profitable basis.
7. Export market identification information will be generated by GOP and private sector agencies.

PERFORMANCE INDICATORS:

Annual Increase of Non-Traditional Exports in \$ Millions

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>TOTAL INCREASE</u>
<u>Gross Export</u> ^{1/}	<u>18.0</u>	<u>23.0</u>	<u>34.0</u>	<u>49.0</u>	<u>57.0</u>	<u>181</u>
Agro based	8.0	9.0	18.0	23.0	24.0	82
Other	10.0	14.0	16.0	26.0	33.0	99
<u>Net Exports</u> ^{2/}	<u>8.0</u>	<u>10.0</u>	<u>15.0</u>	<u>22.0</u>	<u>26.0</u>	<u>81</u>

^{1/} Gross Exports = F.O.B. value of exported goods.

^{2/} Net Exports = value of exports minus value of imported materials.

BENCHMARKS:

- | | |
|---|----------------------|
| 1. Approval of modifications in industrial protection law which increase market pressures on local producers to lower costs. | Achieved, March 1986 |
| 2. Approval of modification in the Labor Code to allow for productivity incentives. | Achieved, March 1986 |
| 3. Government action initiated to lower transportation and energy costs. | 3rd Qtr. 1986 |
| 4. Formation of a private sector institution capable of providing services to improve productivity and to introduce new products with export potential. | 1st Qtr., FY 1987 |
| 5. Formation of Export Development Bank | 4th. Qtr. FY 1986 |
| 6. Development of a mechanism for providing Panamanian firms with information on export markets and on the activities of competitive foreign producers. | 4th Qtr., 1986 |
| 7. Activation of a marketing technical assistance unit for agricultural cooperatives | 3rd Qtr., 1986 |
| 8. Disbursement of \$2 million in marketing credit for agriculture cooperatives | 4th Qtr., 1986 |
| 9. Disbursement of a total of \$4 million in marketing credit for agriculture cooperatives | 4th Qtr. 1987 |
| 10. Provision of technical assistance and/or credit leading to a succesful cooperative export operation of non-traditional produce | 3rd Qtr. 1986 |

POLICY DIALOGUE ACTIONS:

1. The GOP must take action to reduce factor costs, especially energy, port charges and internal transportation.
2. Provision, by the Ministry of Agriculture, of extension assistance to agriculture cooperatives and entrepreneurs capable of producing non-traditional crops for the export market.

<u>PROJECTS:</u>	<u>NUMBER</u>	<u>TOTAL COST</u>
<u>Continuing:</u>		
Investment Council of Panama	525-0239	\$3,973,000
Small Business Development	525-0240	9,000,000
Agriculture Cooperative Marketing	525-0222	8,200,000

NARRATIVE:

Investment Council of Panama (525-0239) During FY 1985/FY 1986 the Investment Council of Panama has reported success in promoting an estimated \$32 million of new investments in Panama resulting in some 4,500 employment opportunities. The ICP Project, however, has had a variety of serious problems since its inception and is currently in the process of a mid-project evaluation to determine how the project can be improved. The ICP changed its dependency from one government agency to another during its short life span, has had a series of different directors and has experienced GOP budget cutbacks. Important research and information functions were delayed while investment promotion activities went forward without the "targeting" which would have resulted from valuable market information.

On the basis of a mid-project evaluation, decisions will be made about USAID's future support for the ICP.

Small Business Development (525-0240) Progress to date includes:

1. All CP's to initial loan and grant disbursements were met.
2. All Ministry of Commerce and Industry (MICI) and Panamanian Federation of Savings & Loan Cooperative (FEDPA) personnel who are providing technical assistance to small businesses were trained and in place by August 1985.
3. Eight project familiarization seminars have taken place with 388 small businessmen attending.
4. Seven private banks and FEDPA have signed the participation agreement with the National Banking Commission (CBN). This gives them access to the loan and guarantee funds of the project. The seven banks have 37 branches throughout the country.
5. MICI has transferred \$570,000 from its previous small business projects to the guarantee fund. This is 14 percent over their three year target of \$500,000.
6. Management information systems have been established at MICI and the CBN to provide data on small businesses that have been assisted, loans and employment generation.

7. Eight loans for a total of \$231,000 have been disbursed from the loan fund at the CBN. An additional six loans for a total of \$108,000 have been approved by the various banks and six other loans for a total of \$176,000 are in the final stages of loan approval. Thus, the total of loans approved or in the process of approval consists of 20 loans for \$515,000, 50% of which is provided from the commercial banking sector and 50% from the USAID Loan.

8. The total number of jobs generated is estimated to be 85.

The first two benchmarks in last year's action plan were met: they consisted of having five banks and FEDPA participating in the project and the activation of the MICI technical assistance unit.

The last benchmark regarding new investment of \$1 million and 250 new jobs has been modified because the CP's to initial loan and grant disbursement took longer than expected. Thus, the new benchmark for FY 86 is for \$600,000 in loans to be made and 150 jobs either created or maintained because of this project. For FY 1987, the figure is 500 for jobs and \$2 million for investment; for FY 1988, 1,000 for jobs and \$4 million for investment.

This implies that the loan portfolio is on target but the average size of individual loans has been larger than originally expected. The Project Paper anticipated an average loan size of \$4,000 - \$5,000. In actuality, the average loan size is \$25,500. Ten of the twenty loans that have been made fall into the \$8,000 - \$20,000 range. Because four of the other loans were for \$50,000, the average loan size was skewed upward. When the FEDPA cooperatives initiate their lending activities within the next few months, it is anticipated that the average loan value will drop significantly.

Special Activities

It is generally recognized that the "take off" of electronics industries in any locale follows the successful establishment and operation of a core company or companies. The USAID has, with the cooperation of the PRE Bureau, made contact with three US electronic firms in the U.S. who have expressed an interest in establishing, with Panamanian investors, mutually supportive electronic production facilities in Panama. The investors intend to prepare a feasibility study business plan which they hope to carry out, with the assistance of the AID Joint Venture feasibility fund.

Should the study indicate that the proposed venture is viable the USAID, in conjunction with the PRE bureau would provide appropriate support to the enterprise.

Agricultural Cooperatives Marketing (525-0222) During FY 1985/FY1986 a technical assistance team was contracted and assisted the Agriculture Development Bank (BDA) in setting up procedures for the review of credit applications, established the framework for a marketing training center within the Autonomous Panamanian Cooperative Institute (IPACOOOP), provided technical assistance to two cooperatives in the development of marketing feasibility studies which have generated loan requests totalling \$1.6 million, trained agriculture cooperative directors in basic administrative procedures, and is presently providing technical assistance to a cooperative in the post harvest handling of melons for export to the United States.

The National Federation of Agriculture Cooperatives, COAGRO, which was intended as one of the implementing agencies for this project, is in financial difficulty and managerial responsibilities for COAGRO have been taken over temporarily by the Ministry of Planning and the Agricultural Development Bank (BDA). BDA is completing an analysis of COAGRO's financial position. A work plan is being developed by COAGRO's Board of Directors and the Ministry of Planning to provide the basis for renegotiating COAGRO's debt and improving its managerial procedures. The Agriculture Cooperative Marketing Project has been requested by the Government of Panama to provide assistance to COAGRO in carrying out an administrative reorganization. This request for assistance provides an excellent opportunity for the cooperative marketing project to shape the future design of COAGRO and reorient its procedures to emphasize profit making and good management. In the meantime, the marketing unit for this project has been transferred to the Autonomous Panamanian Cooperative Development Institute (IPACOOOP) and 3 cooperative marketing projects are under development.

A feasibility study will be prepared during the 2nd quarter FY 1986 for the export of cacao by an agriculture cooperative. Technical assistance and credit for a coffee producing cooperative is also programmed this year. The Federation of Agricultural Cooperatives, COAGRO, will receive technical assistance from the ACDI contract team during the 2nd quarter 1986 in reorganizing its administrative structure and operational procedures. A survey of the agricultural production and administrative and financial capability of 15 cooperatives will be carried out in the 3rd quarter FY 1986 to facilitate development of marketing projects, and technical assistance needs which are based on the capabilities and resources of the beneficiary cooperatives.

In 1986, the Private Sector Export Finance Project (525-0261) will be initiated and generate increased export earnings by substantially increasing private investment in manufacturing and agribusiness industries for exportable goods. A private sector development finance institution will be established as an instrument for providing medium and long-term financing, technical assistance and advisory services to the export sector. In doing so, the project will help meet the program's strategy of 1) facilitating the transition of Panamanian

producers and suppliers from total reliance on domestic and Central American markets to greater participation in world markets and, 2) assuring wide dissemination of the direct and indirect benefits of such participation. In addition, the project will meet AID's overall goal of fostering the growth of productive, self-sustaining income and job producing private sectors in developing countries. To date, the project PID has been approved in Washington and authority to approve this project has been re delegated to USAID/Panama. The Project Paper is completed and negotiations are underway with the private sector promoters.

NEW PROJECTS*

	<u>NUMBER</u>	<u>TOTAL COST</u>
Private Sector Export Finance (FY86)	525-0261	19,300,000
Product Development and Prod. Improvement	525-0272	10,000,000
Private Enterprise Support	525-0280	8,000,000
Agriculture Diversification	525-0266	30,000,000
Livestock Production and Marketing	525-0288	30,000,000

* For New Project Descriptions (FY87/88) see pages 54-66.

8. GOAL - LAYING THE BASIS FOR LONG-TERM GROWTH

OBJECTIVE CATEGORY: B.1 INCREASE AGRICULTURAL PRODUCTION. Promote private sector production and marketing of agricultural produce, to achieve a sustainable agricultural sector growth rate of 3.6 percent annually by 1991.

KEY ASSUMPTIONS:

1. That the Government of Panama will move toward a more free market oriented pricing policy.
2. That market incentives will induce the adoption of improved agricultural technology by farmers.
3. As agricultural productivity increases through output stimulating/cost reducing technology, Panamanian producers will become increasingly competitive on the world market.
4. That Panama, to maximize its competitive position in the export market, places production/processing emphasis on commodities for which it has the greatest competitive advantage.

PERFORMANCE INDICATORS

	Base Period Indicator 1985	Benchmark Performance Dec. 88	Target Date Dec. 90
1. Value of marketed agriculture production	617	699	743
2. Agricultural growth (annual) %	2.9	2.5	3.5
3. Value of Agro-Industry	177	201	244
4. Agro-Industry growth %	0	2.5	9.4

BENCHMARKS:

A. Agriculture Cooperative Marketing Project (525-0222)

1. Activation of a marketing technical assistance unit for agricultural cooperatives. 3rd Qtr. 1986
2. Activation of a system for providing cooperatives with up-to-date information on the U. S. produce market. 4th Qtr. 1986
3. Disbursement of \$2 million in marketing credit for agriculture cooperatives.^{1/} 4th Qtr. 1986

^{1/} Benchmarks 3 and 4 under the Agriculture Cooperative Marketing Project are a modification and restatement of the benchmark in the 1985 Action Plan to disburse \$4 million in credit by the end of FY 1986.

4. Disbursement of a total of \$4 million in marketing credit for agriculture cooperatives. 4th Qtr. 1987
5. Provision of technical assistance and/or credit leading to successful cooperative export operation of non-traditional produce. 3rd Qtr. 1986
6. Complete 7 feasibility analyses for cooperative marketing projects. 4th Qtr. 1987

B. Agricultural Policy Formulation and Management (525-0247)

1. Operation by the private sector, of two agro-industries presently being managed by the Ministry of Agricultural Development. 2nd Qtr., 1988
2. Planning unit established within the Ministry of Agriculture to design, coordinate and evaluate public sector agricultural programs. Completed as scheduled in 1985 Action Plan
3. Develop first annual National Agricultural Development Plan Completed as scheduled in 1985 Action Plan
4. Establish permanent policy studies group within the Ministry of Agriculture to conduct studies, assess impacts of agriculture policy and recommend alternate policies. Completed as scheduled in 1985 Action Plan
5. Expansion of agricultural policy dialogue to include producer, agro-industry and consumer groups affected. 4th Qtr. FY 1987

C. Agriculture Technology Development (525-0180)

1. Completion of construction of 3 Agriculture Subcenters and Regional Centers with their respective laboratories. 1st Qtr. FY 1988

2. Signature of an amendment to the Agriculture Technology Development Project which refocusses research toward agricultural commodities for which Panama has a competitive advantage. 2nd Qtr. FY 1987
3. Completion by the Panamanian Institute of Agricultural Research of 187 crop/livestock experiments, validation of 10 experiments, and initiation of dissemination of research results. 4th Qtr. FY 1986

D: Agriculture Technology Transfer (525-0227)^{1/}

1. Completion of testing phase of cost effective agriculture technology transfer methodology for Chiriquí Province. 2nd Qtr. FY 1988
2. Initiation of public dissemination of an improved pasture seed developed by the Research Institute for cattle production in Chiriqui Province. 1st Qtr. FY 1987
3. 35% of the farmers in the Agriculture Technology Transfer Project area of Chiriqui Province utilizing technology promoted by the project. 4th Qtr. FY 1988

E. Integrated Rural Development Project (525-0186)

1. The Project will increase farm income from key agriculture commodities to reach \$620 in 1982 prices. Field survey is to be conducted to confirm accomplishments. 4th Qtr. FY 1986
2. In the Project target area, increase farm income from key agriculture commodities to reach \$700 in 1982 prices. 4th Qtr. FY 1987
3. Have an all weather road network within 2 hours by foot or horseback for 80% of the population in the Sona District. 1st Qtr. FY 1987

^{1/} The benchmark relating to the design and initiation of a national agricultural extension project has been eliminated in view of the findings of the draft USAID assessment of the agriculture sector. In its place, and as part of the Mission strategy, an Agriculture Diversification Project is being programmed for funding in FY 1987.

F. Agriculture Diversification (525-0266)

1. Creation of linkage between private sector agriculture specialists, Government resource coordinators, and farmers or associations of farmers. 2nd Qtr. FY 1988
2. Development and implementation standardized grades and standards for agricultural products. 1st. Qtr. FY 1988
3. Profitable exportation of concentrated fruit juice. 2nd Qtr. FY 1989

POLICY DIALOGUE ACTIONS:

1. Phased reduction of government-fixed producer and consumer prices, marketing and processing margins. Decontrol of those commodities whose domestic prices are depressed, or for which competitive import and marketing/processing channels already exist.
2. Privatization of state-owned enterprises through divestiture or licensing.
3. Promotion of private sector participation in agricultural distribution, storage, and processing of inputs for domestic and export markets, especially the rationalization of the Agricultural Marketing Institute's (IMA) role in marketing.
4. Development and implementation of an agricultural research policy which allocates research resources, on a priority basis, to commodities which Panama can produce competitively.
5. Formulation and enforcement of policies which will encourage sustainable natural resource conservation measures.

PROJECTS:

NUMBER

TOTAL COST

Continuing:

Agric. Policy Formulation and Management	525-0247	\$ 5,000,000
Agricultural Cooperative Marketing	525-0222	8,200,000
Agriculture Technology Transfer	525-0227	7,500,000
Agriculture Technology Development	525-0180	11,200,000
Integrated Rural Development	525-0186	9,700,000

NARRATIVE: Since 1981, the virus "Black Sigatoka" has affected approximately 46% of the plantain crops, with resulting substantial decreases in plantain production. As a substitute for plantain, the Autonomous Panamanian Institute for Agriculture Research (IDIAP) is evaluating genetic material of hybrid cacao plants which will adapt well, are high yielding and tolerate insects and diseases. Of particular concern is *Monilia Rorei* fungus, which attacks cacao trees and reduces production. This fungus is present in the Bocas del Toro area and without treatment can reduce production per tree by 30 to 50%. Research is now being conducted on six promising hybrid lines which are resistant to *Monilia*.

During the 3rd quarter 1987, USAID/Panama will amend the Agriculture Technology Development Project to provide \$5 million in additional funds required to carry out research on crops and livestock for which Panama has a competitive advantage. The PACD of the project will be extended by 5 years in order to allow a realistic time frame within which to field test varieties in different micro-climates. Improved pasture seed will be tested in conjunction with the development of the Livestock Production Project, and the cost/benefit of livestock production will be closely examined.

Under the Agriculture Policy Formulation and Management Project (525-0247), a technical assistance team has been contracted and is providing assistance in analysis and policy formulation to the Ministry of Agricultural Development. Specifically, a policy analysis unit has been established within the Ministry, project counterpart personnel have been trained, analysis of rice and industrial tomatoes have been completed and studies are under way on onion, plantain, beef, milk and three basic grain crops. The results of these studies will be used by the Ministry of Agriculture in developing pricing for these products. However, by far the most notable accomplishment of the policy analysis unit during the past year has been its contribution to the drafting and defense of the new Agricultural Incentives Law (No. 44). This law, which was passed in late March, 1986 by the Legislative Assembly, replaces Law 19, which was predicated on self-sufficiency and provided for a series of protectionist measures, such as high support prices and quantitative restrictions.

The new law promotes efficient production, carefully developed agricultural policies, quality controls for agricultural inputs, and standards and grades for agricultural products. The intent of the law is to move the agricultural sector toward competitive market signals, and to promote exports. For this purpose, the legislation promotes improved technology and technology transfer, as well as longer-term agricultural policies which are to be formulated in consultation with producers and consumer groups. The Mission views the new law as a positive move by the Government of Panama toward the eventual freeing of marketing controls and the establishment of incentives for increased export production. The policy analysis unit has also produced the first Annual National Agriculture Development Plan to better focus the Ministry of Agriculture's development efforts.

Government transfer of key personnel from the Agriculture Technology Transfer Project (525-0227) in mid 1985 delayed the execution of planned activities. However, a USAID motivated reorganization of project administrative procedures and recruitment by the Ministry of Agricultural Development of more qualified project personnel, as well as growing ministerial level support for project activities, has substantially improved project implementation.

Project staff have now developed and are testing two extension technologies in the Chiriqui and Azuero project areas. Data are being compiled on the cost effectiveness of the methodologies so that decisions may be made regarding the most appropriate methodologies for replication on a broader scale. By the fourth quarter of FY 1988, a cost effective extension methodology will have been developed and fully tested in the project area. The project team has also begun assisting farmers in identifying markets for their produce and conducting transactions. Most recently, the project assisted 60 farmers in transacting the sale and export of pineapples to the U.S. More "transaction assistance" is planned during 1986-1987.

During FY 1986, the Mission intends to amend the Agriculture Cooperative Marketing Project to increase training funds by \$320,000. Among other things, this will fund observation trips to U. S. markets where Panamanian producers and marketers will meet brokers, wholesale buyers and distributors, and observe the rigorous grading and selection process first-hand. Tours are also programmed to Honduras to observe successful vegetable production and export marketing activities. In addition in-country training seminars will be held to improve cooperative accounting, administrative, managerial and marketing procedures.

The National Federation of Agriculture Cooperatives, COAGRO, which was intended as one of the implementing agencies for this project, is in financial difficulty and managerial responsibilities for COAGRO have been taken over temporarily by the Ministry of Planning and the Agricultural Development Bank (BDA). BDA is completing an analysis of COAGRO's financial position. A work plan is being developed by COAGRO's Board of Directors and the Ministry of Planning to provide the basis for renegotiating COAGRO's debt and improving its managerial procedures. The Agriculture Cooperative Marketing Project has been requested by the Government of Panama to provide assistance to COAGRO in carrying out an administrative reorganization. This request for assistance provides an excellent opportunity for the cooperative marketing project to shape the future design of COAGRO and reorient its procedures to emphasize profit making and good management. In the meantime, the marketing unit for this project has been transferred to the Autonomous Panamanian Cooperative Development Institute (IPACOOOP) and 3 cooperative marketing projects are under development.

In order to realize Panama's potential competitive advantage in agricultural production and marketing, qualified agriculturalists are required to work as managers for larger farmers, agriculture cooperatives and packing plants. University trained agriculturalists, however, often do not have a farm background and obtain little practical on-farm experience during the course of their academic training. Consequently, a more practically-oriented agriculture training program is required to prepare Panamanians for productive mid-level careers in agriculture.

The college best qualified to provide this type of training, the Panamerican Agricultural School of Honduras (Zamorano) is located outside of Panama and is too expensive for most Panamanian students to attend. In late 1985, 17 Panamanian students passed the Zamorano entrance examination, but because of the high tuition costs and fees (\$10,738) only two students were able to attend Zamorano in 1986. To alleviate the financial constraint on students eligible for Zamorano, and to provide more practically oriented agriculturalists to work in agro-industry, the Mission will fund 45 three-year scholarships at Zamorano, starting in the 4th quarter 1986.

Agriculture Cooperative Marketing see Narrative Section A.2.

NEW PROJECTS*

Zamorano Scholarships (FY 1986)	525-0285	\$ 1,200,000
Agriculture Diversification	525-0266	30,000,000
Private Sector Export Financing	525-0261	19,300,000
Livestock Production & Marketing	525-0288	30,000,000

* See New Project Descriptions FY87/88 pages 54-66.

OBJECTIVE CATEGORY: B.2 INCREASE INDUSTRIAL PRODUCTION: To double industrial production by 1991.

KEY ASSUMPTIONS:

1. The industrial sector offers potential for incremental growth in production and employment.
2. High factor prices — especially energy and transportation — as well as a restrictive labor code will be modified sufficiently to permit Panamanian industry to compete for foreign markets.
3. The value of the US dollar will be maintained to present levels and thus contribute to the increasing competitiveness of Panamanian products vis-a-vis products from the Far East.
4. The CBI provides ready access to U.S. market.
5. Improvement in the investment climate will induce foreign and domestic investment.

PERFORMANCE INDICATORS: Increments to industrial output: (\$ Million)

<u>1. Targets</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>Total</u>
Incremental Output	20.0	30.0	40.0	53.0	63.0	206
Incremental Investment	12.0	18.0	24.0	32.0	38.0	124

2. See Exports B.4

BENCHMARKS:

1. Approval of modifications in Labor Code to allow payments for piece work. Achieved, March 1986
2. Approval of modifications in existing industrial protection which increase market pressures on local producers to improve quality and lower costs. Achieved, March 1986
3. Formation of a private sector institution capable of providing services to all sectors to improve productivity and to introduce new products with export potential. 1st Qtr. 1987

- | | |
|---|----------------|
| 4. Development of a mechanism for providing Panamanian firms with information on export markets and on the activities of competitive foreign producers. | 4th Qtr. 1986 |
| 5. Development credit available to potential exporters from the Export Development Finance Corporation. | 4th Qtr. 1986 |
| 6. Private financial intermediaries will provide credit to small business at an annual rate of \$2.8 million. | 4th Qtr., 1987 |
| 7. Private financial intermediaries will provide credit to small business at an annual rate of \$6.0 million. | 4th Qtr., 1988 |
| 8. The MICI technical assistance unit will be in full operation providing 1,000 business assessments in FY 1987. | 4th Qtr., 1987 |
| 9. FEDPA will have five participating cooperatives lending \$US 250,000 by the end of FY 1987. | 4th Qtr., 1987 |
| 10. FEDPA will have 10 participating cooperatives lending to small and micro enterprises at an annual rate of \$500,000. | 4th Qtr. 1988 |
| 11. Direct foreign investment on joint ventures in Panama production facilities to reach annual level of not less than | |
| \$5.0 million | 4th Qtr. 1987 |
| 6.0 million | 4th Qtr. 1988 |
| 12. Projects financed by Export Development Finance Corporation in amount not less than: | |
| \$ 5.0 million | 4th Qtr. 1987 |
| \$ 8.0 million | 4th Qtr. 1988 |
| 10.0 million | 4th Qtr. 1989 |

POLICY DIALOGUE ACTIONS:

1. More equitable and stable 'rules of the game' for the private sector.
2. Reduction in GOP influenced factor costs e.g., transportation and electricity.

PROJECTS:

	<u>NUMBER</u>	<u>TOTAL COST</u>
<u>Continuing:</u>		
Investment Council of Panama	525-0239	\$3,973,000
Small Business Development	525-0240	\$9,000,000

NARRATIVE:

Investment Council of Panama See Narrative Section A.2.
Small Business Development See Narrative Section A.2.

NEW PROJECTS*

	<u>NUMBER</u>	<u>TOTAL COST</u>
Private Sector Export Finance (FY1986)	525-0261	\$19,300,000
Product Development and Prod. Improvement	525-0272	10,000,000

* See new Project Description FY87/88 pages 54 - 66.

OBJECTIVE CATEGORY: B.3 STRENGTHEN THE PRIVATE SECTOR: Increase the role and improve the performance of private enterprise.

KEY ASSUMPTIONS:

1. Private sector organizations are willing and able to undertake key developmental activities, previously carried out exclusively by government.
2. Adequate long-term developmental credit and agricultural production credit will be available to private enterprise.
3. Political and economic stability, coupled with GOP-provided incentives will induce foreign investment.
4. The resistance of industrialists to reduction of protective tariffs will diminish as they participate successfully in export production.
5. Removal of government-imposed price, market and import/export controls on agricultural commodities will give rise to positive production responses.
6. A systematic program of parastatal divestiture will be carried out by the GOP.
7. GOP institutions whose activities impact on private enterprise will increasingly support and facilitate investment and business operations.
8. Demonstration of financial feasibility of low-cost housing projects will induce private financial institutions to play a larger role in such construction.
9. Critical factor costs which are influenced by the GOP will be reduced by policy and operational modifications.

Performance Indicators

1. Incremental Private Investment (\$Millions)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>Total</u>
Farm Production	4.0	4.0	8.0	11.	11.	38
Industry & Agro- Industry	12.0	18.0	24.0	32.	38.	124
	16.0	22.0	32.0	43	49	162

Incremental Private Output

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>Total</u>
Farm Production	13.0	13.0	26.0	37.0	37.0	126
Industry and Agro- Industry	20.0	30.0	40.0	53.0	63.0	206
	<u>33</u>	<u>43</u>	<u>66</u>	<u>90</u>	<u>100</u>	<u>332</u>

2. See export projections B.4.

BENCHMARKS:

1. Completion of an USAID financed study of improvements in the definition and administration of GOP regulations which influence the development of the private sector. 1st Qtr. 1987
2. Implementation of improvements in the GOP regulations which influence the development of the private sector (e.g. regulations affecting the mining, the fishing, commercial and other sectors which are administered by MICI). 1st Qtr., 1988
3. Action initiated to carry out divestiture of selected state enterprises. 3rd Qtr., 1987
4. Active participation of 15 banks and credit unions in the small business lending program. 3rd Qtr., 1987
5. Credit available to potential exporters from the Export Development Finance Corporation. 1st Qtr., 1987
6. Private Sector organization assumes operational role in productivity project. 1st. Qtr. 1987
7. Issuance of national housing policy which addresses the appropriate role of private and public sectors. 1st. Qtr. 1987
8. Agricultural Cooperative exporting to the U.S. 3rd. Qtr. 1987
9. Agricultural Cooperative expands grain, fruit and vegetable marketing. 1st. Qtr. 1987

POLICY DIALOGUE ACTIONS:

1. The GOP reduces the costs and the personnel of the public sector while at the same making it more supportive of private sector development.
2. More beneficial and stable 'rules of the game' with respect to private sector growth must be fostered and promoted by the GOP.
3. The capacity of private sector organizations including trade unions must be increased so they can carry out appropriate economic and social analysis enabling them to anticipate and react promptly and intelligently to emerging opportunities and constraints.
4. Realistic plan for the divestiture of state-owned enterprises will be prepared with goals and strategies clearly determined.
5. The responsibility for development finance and for providing credit to small business must shift from the public to the private sector.
6. The GOP should develop policies and establish conditions to encourage and facilitate private enterprise to undertake low-cost shelter production and reduce role of public sector.
7. Reductions of GOP role in agricultural marketing.

<u>PROJECTS:</u>	<u>NUMBER</u>	<u>TOTAL COST</u>
<u>Continuing:</u>		
Small Business Development	525-0240	\$9,000,000
Investment Council of Panama	525-0239	3,973,000
Industrial Relations Services	525-0275	646,000
Private Sector Scholarships	525-0258	2,500,000

NARRATIVE

See Narrative on Investment Council of Panama (525-0237) Section A.2.
See Narrative on Small Business Development (525-0240) Section A.2.

Industrial Relations Services (525-0275) An OPG was initiated in August, 1985, with the American Institute for Free Labor Development (AIFLD) which will work with the Confederation of Workers of the Republic of Panama (CTRP). The project is promoting the participation of organized labor in the national dialogue on economic and social development. A national study of economic conditions to be undertaken by the CTRP has been delayed slightly while an appropriate consultant can be located by AIFLD. Recruitment is underway and the study should be initiated by May, 1986.

In addition, the OPG is stimulating more direct collective bargaining between unions and employers without Ministry of Labor intervention. An office has been set up and is fully operational within the CTRP to promote and assist in this effort. Baseline data on the current status of collective bargaining in Panama have been collected and are being analyzed. A program for providing local unions with direct assistance for bargaining is being implemented. Finally, a training plan for educating trade union members has been developed and training is taking place both in the U.S. and in Panama. We see this project not only as an economic force but a political one as well, opposing arbitrary rule and promoting democratic values. We see it playing an important part in political development, as well as in improving the social and economic well-being of working men and women.

NEW PROJECTS*

	<u>NUMBER</u>	<u>TOTAL COST</u>
Private Sector Export Finance (FY 1986)	525-0261	\$19,300,000
Private Enterprise Support	525-0280	8,000,000
Product Development and Prod. Improvement	525-0272	10,000,000
Private Sector Shelter Development	525-HG-13/	25,000,000 (HG)
	525-0287	675,000 (G)

* See New Project Descriptions FY87/88 pages 54 -- 66.

OBJECTIVE CATEGORY: B.4 INCREASE EXPORTS: Increase level of non-traditional exports by \$181.0 million by 1991.

KEY ASSUMPTIONS:

1. Exposure of private sector production to increasingly competitive market pressures will improve the quality and quantity of products both for the domestic and the export market.
2. Government agencies will provide efficient responses to public sector requirements, especially in those regulations affecting production.
3. The U.S. market will provide an increasing opportunity for Panamanian producers as a result of rising costs in the Far East, the declining value of the dollar and the changes in article 806 of the U.S. Commercial Code, which will permit Panama to substantially increase its exports.
4. The technology required for production of non-traditional crops is either available in Panama or can be readily obtained through technical assistance.
5. That initial successful small-scale exportation of non-traditional crops will generate increased investment in and production of these crops.
6. Demand for non-traditional crops will continue to rise in the U.S. and Europe, and these crops can be produced in Panama and exported on a profitable basis.
7. Export market identification information will be generated by GOP and private sector agencies.

PERFORMANCE INDICATORS:

Annual Increase of Non-Traditional Exports in \$ Millions

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>TOTAL INCREASE</u>
<u>Gross Exports</u>	<u>18.0</u>	<u>23.0</u>	<u>34.0</u>	<u>49.0</u>	<u>57.0</u>	<u>181</u>
Agro based	8.0	9.0	18.0	23.0	24.0	82
Other	10.0	14.0	16.0	26.0	33.0	99
<u>Net Exports</u>	<u>8.0</u>	<u>10.0</u>	<u>15.0</u>	<u>22.0</u>	<u>26.0</u>	<u>81</u>

BENCHMARKS:

- | | |
|---|----------------------|
| 1. Approval of modifications in industrial protection law which increase market pressures on local producers to lower costs. | Achieved, March 1986 |
| 2. Approval of modification in the Labor Code to allow for productivity incentives. | Achieved, March 1986 |
| 3. Government action initiated to lower transportation and energy costs. | 3rd Qtr., 1986 |
| 4. Formation of a private sector institution capable of providing services to improve productivity and to introduce new products with export potential. | 1st Qtr., FY87 |
| 5. Formation of Export Development Bank | 1st Qtr. FY87 |
| 6. Development of a mechanism for providing Panamanian firms with information on export markets and on the activities of competitive foreign producers. | 4th Qtr., 1986 |
| 7. Activation of a marketing technical assistance unit for agricultural cooperatives | 3rd Qtr. 1986 |
| 8. Disbursement of \$2 million in marketing credit for agriculture cooperatives | 4th Qtr. 1986 |
| 9. Disbursement of a total of \$4 million in marketing credit for agriculture cooperatives | 4th Qtr. 1987 |
| 10. Provision of technical assistance and/or credit leading to a successful cooperative export operation of non-traditional produce | 3rd Qtr. 1986 |

POLICY DIALOGUE ACTIONS:

1. The GOP must take action to reduce factor costs, especially energy, port charges and internal transportation.
2. Provision, by the Ministry of Agriculture, of extension assistance to agriculture cooperatives and entrepreneurs capable of producing non-traditional crops for the export market.

<u>PROJECTS:</u>	<u>NUMBER</u>	<u>TOTAL COST</u>
<u>Continuing:</u>		
Investment Council of Panama	525-0239	\$3,973,000
Small Business Development	525-0240	9,000,000
Agriculture Cooperative Marketing	525-0222	8,200,000

NARRATIVE:

See Narrative Investment Council of Panama, Section A.2.
See Narrative Small Business Development, Section A.2.
See Narrative Agriculture Cooperative Marketing, Section A.2.

NEW PROJECTS*

	<u>NUMBER</u>	<u>TOTAL COST</u>
Private Sector Export Finance (FY86)	525-0261	19,300,000
Product Development and Prod. Improvement	525-0272	10,000,000
Private Enterprise Support	525-0280	8,000,000
Agriculture Diversification	525-0266	30,000,000
Livestock Production and Marketing	525-0288	30,000,000

* For New Project Descriptions (FY87/88) see pages 54-66.

OBJECTIVES CATEGORY: B.5 PROTECTION AND MANAGEMENT OF NATURAL RESOURCES:
 Improve the conservation and use of soil, water, and forest resources by public and private sectors to permit sustainable economic and social growth.

KEY ASSUMPTIONS:

1. That the GOP will approve legislation in 1986 providing Renewable Natural Resources Directorate (RENARE) with sufficient authority and administrative autonomy to permit RENARE to implement field operations.
2. That revenues from increased stumpage fees flow to RENARE for operational funding.

PERFORMANCE INDICATORS:

<u>Targets:</u>	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 91</u>
Hectares of private land reforested	250	500	750	1,750
Hectares of parks and reserves protected and managed	500,000	550,000	600,000	750,000
Three key watersheds under improved conservation management programs	-	1	2	

BENCHMARKS:

<u>ACTION</u>	<u>INDICATOR</u>	
1. Initiate Natural Resources Management Project	ProAg Signed	4th Qtr. FY 86
2. Revised forest law containing incentives for private plantations and improved timber concession policies submitted to Assembly	Law presented	3rd. Qtr. FY 86
3. Private reforestation association formed	2 Associations established	4th Qtr. FY 88
4. Reforestation credit fund established & operating	Agreement signed, loans made	4th Qtr. FY 88
5. Establish & maintain farm forestry plots in critical areas	Plots established	4th Qtr. FY 86 (3) 3rd Qtr. FY 87 (8) 3rd Qtr. FY 88 (15)

6. Watershed management plans revised and operational Plans revised 2nd Qtr. FY 88

POLICY DIALOGUE ACTIONS:

1. Natural Resources Management - Institutional and policy reforms to improve legal and administrative framework for natural resources conservation developed.
2. Forest Policy - Redrafting of forestry law and passage of revised forestry law during FY 87.
3. Environmental Policy - Establish national environmental policies and priorities and obtain a statement of national environmental strategy and policy.
4. Watershed Management Planning and Policy - Dialogue with public and private sector leaders and technical assistance for Canal watershed management activities directed at halting encroachment and degradation of forest, soil, and water resources.

<u>PROJECTS</u>	<u>NUMBER</u>	<u>TOTAL COST</u>
<u>Continuing:</u>		
Agriculture Policy Formulation and Management	525-0247	5,000,000
Natural Resource Education	525-0257	1,000,000

BENCHMARK FROM FY 85 ACTION PLAN

PROGRESS

1. 3 watershed action plans developed and operational.	3 plans were prepared in 1978-1981 for the Canal (78), La Villa (81) and La Caldera (80), and put in operation the same years. New action plans were drafted for 1986 and are in operation.
2. National watershed strategy developed in collaboration with RENARE.	This was done in CY 85 as part of the PP process (see above).
3. Drafting of revised timber sales procedures and review by GOP agencies.	Revisions in timber sales procedures were drafted in CY 85. Some procedures have already been implemented in CY 86.
4. Completion of land titling study.	Study to be completed fourth quarter FY 86.

NARRATIVE

In addition to the progress planned, other significant actions have occurred to date with USAID assistance. In the public sector, a law was drafted to give RENARE operational autonomy. This law will be presented to the legislature in April or May 1986. The GOP publicly announced a more aggressive policy to conserve and manage natural resources (1/86). This policy has given added importance to RENARE's activities. Initial reorganization of RENARE to implement this policy is already underway. The outdated forestry law was revised by RENARE and is now being reviewed by the private sector. The revised law will encourage private reforestation and improved natural forest management.

A Canal Watershed Working Group was formed (7/85) which produced broad participation from public and private sectors in watershed planning and implementation activities. A National Water Resources Group was activated for the first time since its legal installment in 1978 to define priorities and advise on policies for watershed management (1/86). These groups are providing the institutional coordination needed for effective watershed management programs.

Returning participant trainees with Masters degrees financed under the Watershed Management Project (525-0191) have taken up key roles in RENARE and MIDA (e.g. advisor to the MIDA Vice Minister on natural resources policy (12/85), Chief of the RENARE Environmental Education Department (12/85), Chief of the Parks Department (11/85), and coordinator for the new Natural Resources Management Project (1/86).

The Natural Resources Education Project (525-0257) established support systems for 22 conservation groups. Five workshops have been conducted and 150 participants trained in design, management, and financing of small conservation projects. A system for funding subprojects was established and 15 projects begun in the third quarter.

Private conservation groups generated contributions of \$320,000 for conservation programs in CY 85, double the previous year. Three new private sector enterprises were formed to provide reforestation services to private landowners.

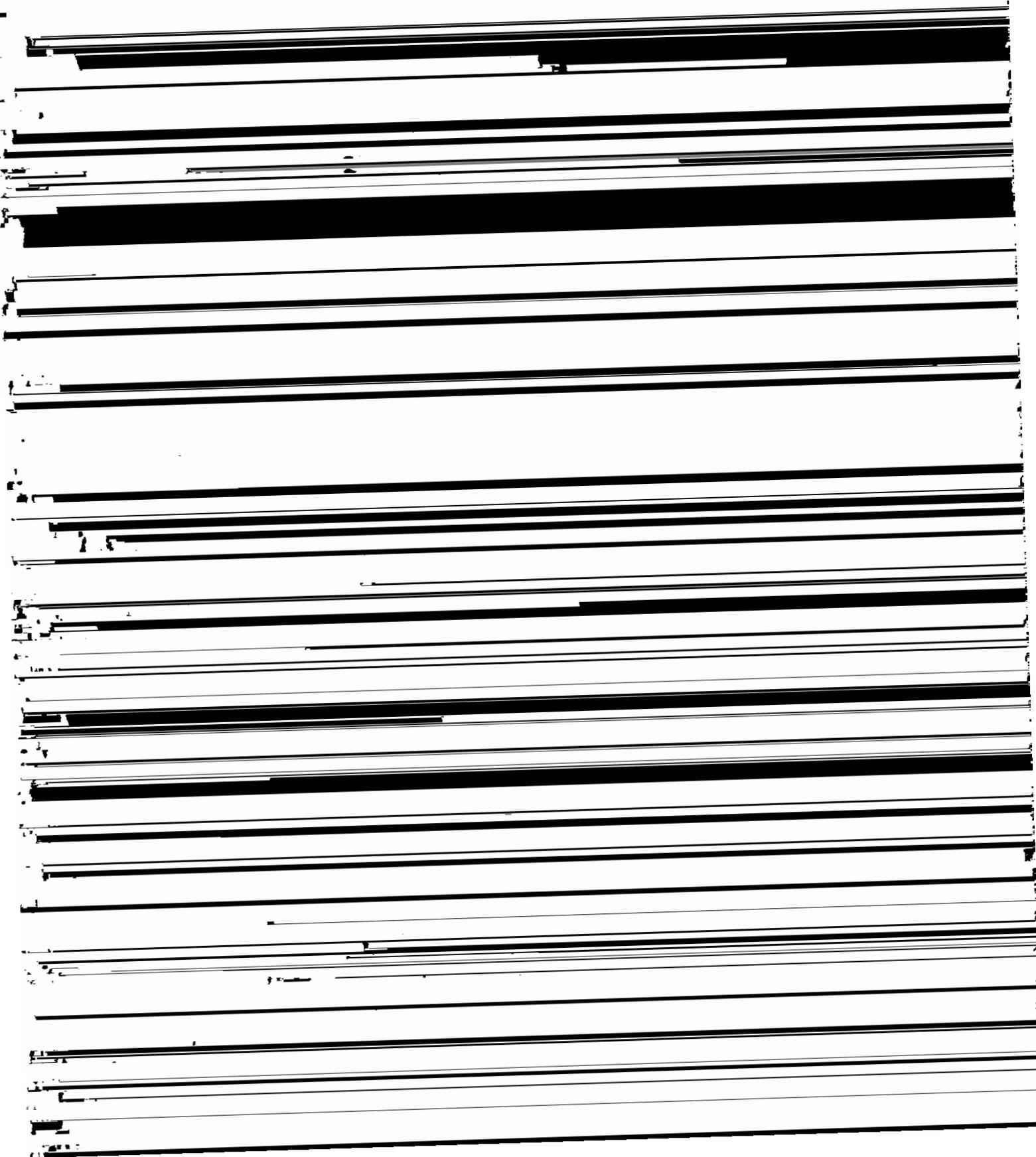
NEW PROJECTS:*

	<u>NUMBER</u>	<u>TOTAL COST</u>
Natural Resources Management (FY 86)	525-0248	\$35,700,000

The Natural Resources Management Project PID was approved in March 1985. The Project Paper will be approved in FY 86. As part of the intensive development of the Project, it was determined that operational and administrative authority and autonomy for RENARE were necessary prerequisites to signing the Project Agreement. Consequently, a law creating RENARE as for autonomous institute must be passed prior to ProAg signature. This law is to be presented in April or May 1986 to the Panamanian Legislature, and passage is likely late in the third or early in the fourth quarter.

* See New Project Descriptions FY87/FY88 pages 54-66.

OBJECTIVE CATEGORY: B.6 INCREASE EMPLOYMENT: A direct employment increase of about 21,100 by 1980.



BENCHMARKS:

1. Approval of modification in the Labor Code to allow for piece rate payments. Accomplished, March 1986
2. Approval of provisions to provide special treatment of small enterprises by Labor Code. Accomplished March 1986
3. Completion and dissemination of a macro-economic study by organized labor which will broaden their ability to participate in constructive national dialogues concerning economic policy. 4th Qtr., 1986
4. Caja de Ahorros, private mortgage banks and savings and loan associations begin lending for low-cost housing. 2nd Qtr. 1987
5. Modification of construction norms and standards to reduce costs for low-cost shelter. 4th Qtr., 1988
6. Identify agricultural commodities with existing or potential competitive advantage in domestic and international market. 4th Qtr., 1987
7. Develop institutional capacity to control unfair competition, provide product price differentiation through grade/size/quality standards. 4th Qtr., 1988
8. Redirect production research to commodities with greatest market potential. 2nd Qtr., 1988

POLICY DIALOGUE ACTIONS:

1. Construction norms and standards will be studied to determine how they may be modified to reduce costs of low-cost housing.
2. Employer and trade union leaders will be encouraged to engage in a national dialogue on how to collaboratively assist in efforts to create new employment opportunities.
3. GOP and private sector representatives will be encouraged to promote the use of INAFORP, the national skills training institute recently given semi-autonomous status, to address the immediate training problems of the private sector.
4. Freeing of consumer prices on agriculture production.

5. Deregulation of price and marketing controls on beef.
6. Analyze production and social benefit component of state production activities and commence privatizing such activities.
7. Issue and publish a national housing policy which addresses how to increase the role of the private sector in achieving shelter development objectives, and public and private sectors actions to be taken to achieve such objectives, including legislation, regulations, etc., that need to be adopted.

PROJECTS:

<u>Continuing:</u>	<u>Number</u>	<u>Total Cost</u>
Small Business Development	525-0240	9,000,000
Investment Council of Panama	525-0239	3,973,000
Agriculture Policy Formulation and Mgt.	525-0247	5,000,000
Agriculture Technology Development	525-0180	11,200,000
Shelter and Urban Planning	525-HG-12/	25,000,000 (HG)
	525-0252	250,000 (G)
Industrial Relations Services	525-0275	\$646,000

NARRATIVE:

The 1985 Action Plan established as a goal the creation of 2,800 new jobs in agriculture by 1987. This goal has been adjusted upward to 2,000 new jobs in agriculture production and 2,000 additional jobs in agro-industry by 1987. Existing as well as programmed projects in the agriculture sector are designed to increase employment as well as income. For example, studies conducted under the Agriculture Policy Formulation and Management Project regarding beef production, along with policy dialogue and the initiation of a livestock production project are expected to lead to a freeing of domestic beef prices and corresponding increases in beef production and marketing activities. Increased employment of 950 more producers per year is anticipated as a result in 1989 and 1990.

Improved technology, improved marketing information and marketing credit along with adoption of grades and standards is expected to make Panamanian fruits and vegetables more competitive in country and abroad. As a result, in both 1988 and 1989 1,660 new jobs in fruit and vegetable production are anticipated.

Finally, the freeing of beef prices is anticipated to move beef prices up with many less affluent consumers switching from beef to poultry. This, along with the development of a national animal feed industry as a downstream activity related to processing beef by-products, is anticipated to increase poultry, egg and hog production and processing. In both 1989 and 1990, 1,660 related new jobs in livestock production will be created, along with 200 jobs in each of those years for processing.

A new FY 1986 project, Private Sector Shelter Development 525-0287/525-HG-013 will strengthen and expand the role of the private sector in meeting the shelter needs of Panama's low-income population. It will help reorient the private sector effort to address the substantial low-income housing problem that has evolved over the years due to rapid urbanization and the inadequate public sector response. AID resources will leverage local savings to finance low-cost housing for families whose monthly incomes fall below the urban median (\$585) to as low as the 20th percentile (\$200). Approximately 8,500 new units and 3,000 home improvement loans will be financed during the project. A trust fund will also be established through which Housing Guarantee resources will be passed to private sector mortgage banks and savings and loan associations to finance low cost housing. Such a mechanism will permit an efficient channeling of resources in the future. The grant portion of the project will support implementation of the HG and provide key technical assistance to analyze and effect reductions in overly rigorous construction norms and standards, institutionalize the trust fund, and manage project implementation.

See Narrative on Small Business Development Section A.2.

See Narrative on Investment Council of Panama Section A.2.

See Narrative on Industrial Relations Services Section B.3.

NEW PROJECTS *

	<u>Number</u>	<u>Total Cost</u>
Private Sector Export Finance (FY 1986)	525-0261	\$19,300,000
Private Sector Shelter Dev. (FY 1986)	525-HG-13/ 525-0287	25,000,000(HG) 675,000(G)
Agricultural Diversification	525-0266	30,000,000
Livestock Production and Marketing	525-0288	30,000,000
Prod. Dev. and Prod. Improvement	525-0272	10,000,000

* See New Project Descriptions FY87/88 pages 54-66.

C. GOAL - EQUITY AND BROAD PARTICIPATION IN DEVELOPMENT

OBJECTIVE CATEGORY: C.1 INCREASE EMPLOYMENT: A direct employment increase of about 31,100 by 1991, of which approximately 11,000 will be employed in the industrial, agro-industrial and small enterprise sectors, 20,100 in agriculture production; and are estimated 2,000 person years of employment in housing construction (each year 1987-1991). An indirect employment increase of approximately 20,730 by 1991.

See Section B.6 for Key Assumptions, Performance Indicators, Benchmarks, Policy Dialogue Actions, Projects and Narrative.

OBJECTIVE CATEGORY: C.2 EXPAND ACCESS TO LOW COST HOUSING: Induce construction of 20,600 low-cost housing solutions and the creation of 7,500 jobs related to the construction sector.

KEY ASSUMPTIONS:

1. Low income families repay loans indicating that perceived lending risk to such families is no greater than for other socio-economic groups.
2. The GOP is committed and able to take potentially controversial actions such as a revision of construction codes and their administration.
3. The GOP completes and issues a statement of Housing Policy which clearly defines appropriate roles for the private and public sectors in shelter production.
4. The GOP continues and accelerates efforts to improve efficiency and management of public sector programs.

<u>PERFORMANCE INDICATORS:</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>Total</u>
Home Improvement Loans	1,400	2,900	2,900	2,900	10,100
Sites and Services	1,200	1,400	1,400	1,600	5,600
New Units (average cost \$10,000)	-	1,500	900	900	3,300
New Units (average cost \$17,000)	-	500	500	600	1,600
Total	2,600	6,300	5,700	6,000	20,600
Jobs in Person Yrs.	<u>1,500</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>7,500</u>

BENCHMARK ACTIONS:

1. Evaluation of the trust fund which will be established with HG resources for a private sector housing program to determine its potential for expansion. 3rd Qtr., 1988
2. Caja de Ahorros, private mortgage banks and savings and loan associations begin lending for low-cost housing. 2nd Qtr., 1987

3. Management audits are completed of the major public sector housing institutions, i.e., National Mortgage Bank (BHN) and Ministry of Housing (MIVI). 4th Qtr., 1986
4. Preparation of a plan to reduce delinquencies in payments to BHN. 4th Qtr. 1986
5. Process is initiated for borrowing additional HG resources under Program No. 525-HG-012. 3rd Qtr., 1987
6. Studies on how to reduce construction standards for low cost housing initiated. 3rd Qtr., 1986
7. Revisions of construction norms and standards for low-cost housing. 4th Qtr. 1988

POLICY DIALOGUE ACTIONS:

1. Issue and publish a National Housing Policy which addresses how to increase the role of the private sector in achieving shelter development objectives, and public and private sectors actions to be taken to achieve such objectives, including legislation, regulations etc., that need to be adopted.
2. Issue BHN regulations enabling savings and loans to convert from mutuals to stock companies, and the establishment of new construction standards to reduce housing production costs for low cost housing projects.
3. Promote improved management of public sector housing institutions such as the National Mortgage Bank and the Ministry of Housing by implementing management audit recommendations, cost accounting systems and portfolio improvement procedures.
4. Strengthen the financial capacity of the BHN to support private and public housing development programs through the savings and loans, cooperatives and by developing a five-year investment plan to support such activities.

PROJECTS

NUMBER

TOTAL COST

Continuing:

Shelter and Urban Planning	525-HG-12/	\$25,000,000 (HG)
	525-0252	250,000 (G)
Urban Shelter Training and Technical Assistance	596-0000	200,000

NARRATIVE:

Accomplishments in the last year with regard to shelter include legislation promoting public sector reform and improved management of the National Mortgage Bank (BHN), Panama's principal shelter finance institution. Legislation was passed to establish a BHN Board (with largely private sector representation) and designate its General Manager, rather than the Minister of Housing, as the BHN's legal representative. Also, mortgage servicing and loan collection functions were transferred from the Ministry of Housing (MIVI) to BHN to improve recuperation of BHN investments. Another key accomplishment was the agreement between the Social Security Agency (CSS), BHN and the GOP to restructure BHN repayments to CSS of deposits made from 1973 to 1983. This agreement and its execution are critical to the financial stability of BHN. With regard to the private sector, legislation now permits the savings and loan associations to charge market rates on mortgage loans and they can convert from mutual to stock corporations.

During the next six months a management audit and cost accounting system for MIVI will be completed. The results of the study will allow it to better manage investment resources it receives from BHN and provide the institution with an evaluation of its operations and how they may be improved. Computer software is being provided to BHN to better manage its portfolio, improve its collection capacity and plan its financial future, and is scheduled to be in place by December, 1986. AID is working with BHN to promote conversion of mutuals to stock corporations which should, along with reforms mentioned above, attract more capital to private sector institutions who have addressed housing needs for families around the median income. Finally, we expect MIPPE, MIVI, and BHN to complete a national housing policy.

During 1987 and 1988, the Mission will promote the effective execution of the national housing policy that calls for a greater private sector role in shelter finance and delivery, and a more market oriented approach to shelter. The Private Sector Shelter Program will promote private sector investment in low-cost shelter and the establishment of an efficient vehicle to channel resources exclusively to low-cost shelter. Also, a series of studies of housing costs will be completed to lay the foundation to revise excessive, costly housing construction standards. These studies are expected to result in new ordinances and codes by the end of 1988.

NEW PROJECTS:

Private Sector Shelter Development (FY86)	525-HG-13/	\$25,000,000 (HG)
	525-0287	675,000 (G)

See Narrative Private Sector Shelter Development Section B.6. page 41.

OBJECTIVE CATEGORY: C.3 INCREASE PARTICIPANT TRAINING: 1,250 persons to be trained in the United States under the CAPS program in addition to 559 to be trained under other Development Assistance projects by 1991.

KEY ASSUMPTIONS:

1. If participant trainees can share learning experiences in the United States and increase their inter-cultural understanding, then they can apply this knowledge to improve production efficiency and effectiveness and to promote democratic ideals.

PERFORMANCE INDICATORS:

Targets: To directly counter bloc influence in Panama and to further the development process in Panama

- A. To provide training to 262 influential professionals and other groups which are in danger of being significantly influenced by Bloc training.
- B. 200 opinion leader groups trained.
- C. 227 key development personnel in training.

BENCHMARKS (New starts):

	<u>Long-Term</u>	
	<u>1987</u>	<u>1988</u>
(CAPS)		
Economists	5	5
Potential Panama Canal Pilots	10	10
Port operations	5	5
Transport managers	5	5
English Professors	5	5
Administrators	10	10
Teachers/Professors	20	20
General Undergraduates	<u>54</u>	<u>53</u>
Total	114	113
	<u>Short-Term</u>	
	<u>1987</u>	<u>1988</u>
(CAPS)		
Leaders	100	100
Tug Boat Captains	15	15
Teachers/Professors	56	56
Administrators	20	20
Bloc Trainees	15	15
Journalists	15	15
Economists	<u>10</u>	<u>10</u>
Total	231	231

Private Sector Scholarships (COSPAE)

	<u>1987</u>	<u>1988</u>
	<u>Long-Term</u>	
Industrial Trainees	45	45
	<u>Short-Term</u>	
Industrial Trainees	20	20

POLICY DIALOGUE ACTIONS: None

PROJECTS:

Continuing:

Central America Peace Scholarship	597-0001	\$53,000,000
Private Sector Scholarships (COSPAE)	525-0258	2,500,000

NARRATIVE:

The CAPS Project began in 1985 and will continue over a seven year period. In 1985, 15 long-term participants (potential Panama Canal Pilots) were sent for training, six participants were sent for long-term training in electrical engineering, and fifty-two short-term training opportunities were provided to rural youth in agriculture. The Mission has actively pursued the establishment of provincial screening committees composed of educational and civic leaders, some church leaders and other public and private entities. To date, all but two of the nine screening committees have been established. In 1986, 58 long-term and 110 short-term participants will be trained in the priority areas listed below. To date, the project has experienced minor delays, but no major problems.

FY 86

	<u>Long Term</u>		<u>Short-Term</u>
		Indigenous Leaders	10
Computer Programming	3	Union Leaders	10
Electronics	5	Rural Youth	50
General Undergraduates	50	Journalist	10
(i.e. business administration, sciences, economics, etc.)		Student leaders	10
		Community leaders	10
		Politicians	<u>10</u>
TOTAL	58		110

Commencing in 1987, training activities will increase substantially over prior years and will remain relatively constant over the remaining years of the project.

To enable the private sector to respond effectively to the need for training and to develop programs that will expose Panamanians to the U.S. economic system and community life, Panamanian business and service organizations agreed to pool their resources under the umbrella of the Council of the Private Sector for Educational Assistance (COSPAE). The Council has a broad mandate to support and promote education within a democratic and free enterprise system.

The USAID/COSPAE program is administered through a Cooperative Agreement with the Institute of International Education (IEE). The Project is a \$5.0 million program of which USAID funds up to \$2.5 million matched by the Panamanian private sector.

During FY 1985 COSPAE sent 45 students to the U.S. in for three month industrial training programs in such subjects as electronics, quality control, industrial production and industrial maintenance. In long-term training COSPAE has 20 students studying in a program leading to an Associate Degree in Electronics and Industrial Maintenance. We plan to send a similar number during FY 1986, 1987 and 1988. The program envisions a total of 120 short-term participants and 96 long-term participants.

COSPAE has conducted several fund-raising campaigns and up to December 1985 they had raised \$1.3 million from industrial, business and government sources and private foundations.

NEW PROJECTS: None

D. DEMOCRATIC INSTITUTIONS AND HUMAN RIGHTS

OBJECTIVES CATEGORY: D.1 PROMOTE DEVELOPMENT OF DEMOCRATIC INSTITUTIONS:
a) Strengthen the justice system and related legal institutions; b) Strengthen the role of democratically elected officials at the municipal level and local participation in decisions affecting economic development; c) Strengthen members' participation in agriculture cooperatives and provide learning opportunities for disadvantaged rural growth.

KEY ASSUMPTIONS:

1. If the democratic institutions of the justice sector were better able to manage resource transfers, then losses due to waste, corruption, delays, equipment shortages, inadequate information systems, inappropriate technology, procurement constraints, lack of coordination and related problems can be reduced, self-reliance will increase and the probability of sustaining programs after funding ends and replicating successes will increase.
2. The ability of local governments to increase their revenue base and provide services to their constituents will enhance their roles and the participation of the electors in decisions.
3. The GOP will continue to promote agriculture cooperatives as part of its development strategy.
4. Without financial assistance, disadvantaged rural youth will not be able to obtain agriculture technical training.

PERFORMANCE INDICATORS:

Targets: Strengthen democratic institutions and organizations, including the legislative, judicial and executive branches.

Strengthen the role of 65 democratically elected mayors and establish an institutional framework through which they can work together.

BENCHMARKS:

1. Establish paralegals and appropriate training programs. FY1987/FY88
2. Provision of training to the judicial branch to be provided including: continuing legal education for judges, court administration and information systems. FY1987/FY88

3. Conferences, workshops and short courses for public prosecutors and defenders. FY1987/FY88
4. Training for legislators and their staffs on committees responsible for drafting legislation affecting the administration of justice. FY1987/FY88
5. Technical assistance to the Panamanian bar association to improve administrative operations, enhance its influence with the executive branch and legislature. FY1987/FY88
6. Technical assistance to national commission appointed to revise the judicial codes. FY1987/FY88
7. Demonstration service projects to be carried out in a minimum of 3 secondary cities. FY1988
8. Train 30 local government officials in financial planning, revenue generation and administration. FY1987/FY88
9. Activate association of mayors and other elected municipal officials. FY 1988
10. Train up to 100 cooperative members in cooperative management. 2nd Qtr. FY1987
11. Graduate from agricultural technical schools up to 100 disadvantaged rural youth. 1st. Qtr. FY1987
12. Practical on-farm training in the United States be provided to 50 disadvantaged rural youth. 3rd. Qtr. FY1986

POLICY DIALOGUE:

1. Assist the GOP in the development of continuing legal education for fiscales, corregidores, and other "judges" who are not lawyers.
2. Resolve constitutional challenges to and complete revisions to the Judicial Code to permit its enactment.
3. Mechanism to insure that legislatively mandated 2% of investment budget for justice is actually provided annually.
4. Organize an association of mayors as a channel for resources and technical assistance.

<u>PROJECTS:</u>	<u>NUMBER</u>	<u>TOTAL COST</u>
<u>Continuing:</u>		
Regional Administration of Justice	596-0133	\$ 225,000
Industrial Relation Services	525-0275	646,000
PANAJURU - Local Scholarships	525-0281	447,000
Private Sector Scholarships (COSPAE)	525-0258	2,500,000
Agriculture Cooperative Marketing	525-0222	8,200,000

NARRATIVE: During FY1985/FY1986, Panama participated extensively in the Regional Administration of Justice Project (596-0122) through short and long term training, conferences, workshops and technical assistance in specialized areas. In addition, it has begun an in-depth analysis of the justice sector in Panama which will identify the strengths and weaknesses of many of the institutions which comprise the justice sector and which will be used to establish Panama's priorities for improvements.

Panama sent two representatives to the 1985 ABA Annual Conference in Philadelphia, Pa., two Supreme Court justices to the Inter-American Judicial Conference, and two representatives to the 25th Inter-American Bar Association Convention, in Acapulco, New Mexico. Six Panamanians also have confirmed their participation at the ILANUD sponsored Conference for Legislators in Guatemala City. Panama has also sent a lawyer to participate in the 1986-87 graduate law program in public administration at the University of Costa Rica Graduate Law School. An ILANUD scholarship was awarded to a lawyer in public administration to attend the Program. In February, 1986, the Panamanian Bar Association sponsored the Second Central American Lawyers Conference with support of the Project. To support Panama's efforts to enact a new Judicial Code in FY 1986, the Project funded a technical assistance advisor to Panama's Judicial Commission revising the Code in selected technical aspects of code revision. Finally, two Panamanian representatives will attend an ILANUD sponsored seminar for public prosecutors in April, 1986.

The planning process for new activities to be carried out in FY/87 and FY/88 is in the process of being initiated. However, it is anticipated that new activities under the Project could include: training for paralegals, court administration personnel, training for justices of the peace, "fiscales", "corregidores" and other judges who are not lawyers.

Two grants to PANAJURU are supporting 9 months of on-farm training in the United States for 134 disadvantaged rural youth. The participants are learning new farming techniques, and also observing first hand the democratic way of life in the United States.

A third OPG with PANAJURU provides local scholarships for 250 disadvantaged students to attend agriculture technical schools in Panama during the timeframe of this Plan. This program allows students who would otherwise be unable to attend school for financial reasons to learn agriculture techniques which will help them to become more competitive farmers.

Under the Agriculture Cooperative Marketing Project, a Technical Assistance Team arrived early FY-1986 and has begun assisting cooperatives in developing projects. A marketing technical assistance unit will also be activated during this period. Training of 100 cooperative members in cooperative management is scheduled to take place during FY 1987. In addition, the training will also reinforce cooperative principles and ensure that members have the opportunity to exercise this right to determine policy and help develop new cooperative activities. Disbursement of \$2 million in marketing credit for agriculture cooperatives will be initiated during the latter part of 1986 followed by the disbursement of a total of \$4 million in marketing credit during 1987.

See Narrative on Agriculture Cooperative Marketing Section A.2
See Narrative on Industrial Relations Service Section B.3.
See Narrative on Private Sector Scholarships Section C.3.

NEW PROJECTS:*

Strengthening Local Government	525-0282	\$12,500,000
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* See New Project Description FY87/88 pages 54-66.

OBJECTIVE CATEGORY: D.2 INCREASE PARTICIPANT TRAINING: 1,250 persons to be trained in the United States under the CAPS program in addition to 559 to be trained under other Development Assistance projects by 1991.

See Section C.3 for Key Assumption, Performance Indicators, Benchmarks, Policy Dialogue Actions, Projects and Narrative.

NEW PROJECT NARRATIVES
FY 1987/FY 1988

Project Title: Agriculture Diversification
Project No.: 525-0266
Funding Source: ARDN
Life of Project Funding: \$8 million (L) \$22 million (G)
FY of Initial Obligation: 1987
FY of Estimated Final Obligation: 1996

Purpose: To increase the productivity and profitability of small and medium sized farms.

Project Description: One of the major agricultural development constraints is the low-level production technology employed on the bulk of Panama's privately owned small and medium farms. No mechanism has been available to effectively deliver information on alternative technologies or cropping/livestock activity mixes which respond to domestic competitive advantages and export opportunities. Private sector involvement has also been limited regarding the search for, development and dissemination of improved agricultural technology and non-traditional crops. Farmers are aware of the Caribbean Basin Initiative (CBI) but lack the knowledge required to determine which crops can be grown economically in Panama and also compete successfully in the U.S. market. Similarly, while some farmers are aware of existing technology which would increase their production, they lack the information and marketing know-how to be able to identify possibilities for marketing within Panama.

The project design will closely examine the alternatives for evaluating and selecting realistic research targets for which Panama has or can develop a competitive advantage in producing for domestic and export markets. Grades and standards for agriculture produce, along with price incentives, will be developed, thereby providing the stimulus for farmers to improve the quality of their produce.

The project will design product strategies for increasing production and marketing of shrimp, beef, fruits and vegetables, and concentrated juices especially for export markets. These product strategies will include technical assistance, training and, possibly, the provision of product development and marketing credit. Special attention will be given to agro-industry development potentials, particularly where substantial employment opportunities exist. Production technologies, post harvest handling techniques and marketing linkages will be developed and promoted.

The design will recognize the interdependence of research, extension and marketing activities. It will develop linkages between these three activities. In particular, the project will forge links between Government Resource Coordinators and specialists from the private sector, eg, in poultry production, fertilizer application, or insect control, and farmers or associations of farmers.

Key public and private funded service centers will be incorporated into the program through the creation of crop organizations, and regional and zonal agricultural development councils. These councils will bring together researchers, extensionists, marketing specialists and the individual farmers

to plan and execute project activities. In addition to the leading role in this project played by the private sector, individual farmers and agricultural cooperatives, the Ministry of Agricultural Development and the Autonomous Institute for Panamanian Agriculture Research will also collaborate with USAID in project execution.

Relationship of Project to AID Country Strategy: As a means to stimulate economic growth in the rural areas of Panama and to increase incomes, USAID strategy emphasizes increasing productivity of export crops, or those crops for which Panama has a competitive advantage in supplying the local market. This project will continue in a more focused manner and in well defined areas those efforts initiated under the Agriculture Technology Transfer Project (525-0227). It will also complement other ongoing and planned Mission activities such as the Agriculture Technology Development Project (525-0180), and the Agriculture Cooperative Marketing Project (525-0222). In addition, the Jackson Plan calls for sharply increased rural research and extension services specifically targetted to crops produced for the local market. This project responds by having as one of its foci the production of crops for which Panama has a competitive advantage.

Host Country and Other Donors: In January, 1986 the President of Panama affirmed his Government's support for the promotion of export crops and improved commercialization of produce, a departure from the Government's emphasis on self-sufficiency in basic agriculture. Consequently, the host country's support of the Agricultural Diversification Project is expected to be substantial. The project will take advantage of and complement available World Bank and Interamerican Development Bank (IDB) credit lines for tropical crop and livestock production. The IDB-financed seed improvement project complements proposed extension activities by providing needed improved inputs.

Beneficiaries: The intended direct beneficiaries will be those small, and medium farmers with commercial potential as well as private agribusiness entrepreneurs. Smaller farmers will also benefit indirectly through increased employment opportunities on larger farms, and with expanded or new agribusiness activities.

Preliminary Budget (\$ millions)

	<u>G</u>	<u>L</u>
Technical Assistance	5	-
Training	3	-
Equipment/Materials	4	2
Service Center Construction	-	6
Evaluation	.5	-
Vehicles	1.5	-
Other Costs	6	-
Contingency/Inflation	2	-
TOTAL	\$22.0	\$8.0

Proposed Documentation Schedule

PID Approval	USAID/Panama
PID	Sept. 1986
PP	April, 1987
PP Authorization	May, 1987

<u>Project Title:</u>	Strengthening Local Government
<u>Project No.:</u>	525-0282
<u>Funding Source:</u>	SDA
<u>Life of Project Funding:</u>	\$12.5 million (G)
<u>FY of Initial Obligation:</u>	1987
<u>FY of Estimated Final Obligation:</u>	1991

Purpose: To strengthen the capacity of democratically elected local government to provide municipal services.

Project Description: This Project supports the objectives of the Jackson Plan to strengthen democratic institutions through the decentralization of decision making. Strengthening the capacity of locally elected officials will prepare them to participate to a greater extent in resolving local problems as the role of central government is diminished by financial austerity.

The major development problem being addressed: Budget allocations for public services are being reduced because of austerity measures affecting central government agencies. Over time, this will result in a decline in the quality of life of secondary cities and towns which have previously enjoyed high levels of services. The project will help local government fill this void in terms of service provision, and in so doing, strengthen the position and stature of democratically elected local officials.

The Project will have three components or sets of activities:

(1) Training programs for a wide range of officials from municipal governments, with emphasis on planning and control systems for budgeting, revenue collections, and control of expenditures; (2) Targeted Technical Assistance for municipalities in the development of specific public services for local communities and for the Association for Inter-Municipal Cooperation; and (3) Credit Line for small scale capital equipment and infrastructure investments. Key organizations for the technical assistance component are the municipal governments of the cities selected for service provision projects and, perhaps, "twin" cities in the U.S. if this concept is used. Also, the Association for Inter-Municipal Cooperation is an implementing organization since it is expected to become a lobby group for policies and legislation which will improve the ability of local governments to generate and manage resources. In terms of the third component, while the Association of Inter-Municipal Cooperation will be closely involved with this credit line, the actual financial institution which will manage the fund will be identified during project design.

Relationship of Project to AID Country Strategy: The Project supports the objectives of the Jackson Plan and the Mission is supporting democratic institutions through decentralization of decision making and strengthening the capacity of locally elected government. In so doing, the Project will support the development and strengthening the Association of Inter-Municipal Cooperation as an institution. Participation of local officials and community leaders in adapting development priorities, designs, implementation strategies, and in communicating to planners local needs, constraints, and priorities will help ensure that public policies and programs are consonant with and supported local involvement the development process.

Preliminary Budget (\$ Millions):

Training Program	\$ 2.0
Technical Assist.	4.0
Credit Line	5.0
Contingency/Inflation	<u>1.5</u>
TOTAL	\$12.5 (G)

Proposed Documentation Schedule:

PID Approval	USAID/Panama
PID	October, 1986
PP	May, 1987
PP/Authorization	June, 1987

<u>Project Title:</u>	Product Development and Productivity Improvement
<u>Project No.:</u>	525-0272
<u>Funding Source:</u>	EHR
<u>Life of Project Funding:</u>	\$10 Million (G)
<u>FY of Initial Obligation:</u>	FY 1987
<u>FY of Estimated Final Obligation:</u>	FY 1991

Purpose: To increase the productivity and production capability of Panamanian industry to compete effectively and profitably internationally, thereby enabling it to expand production and employment.

Project Description: If Panama is to survive its present economic crisis and create jobs, it must increase exports. Panamanian industry is not able to export to any significant degree as it lacks markets and a competitive edge. Industry has never significantly expanded its market beyond regional boundaries. Thus, it has not felt the pressures which demand high levels of productivity and quality. In recognition of this, projects are underway to help expand markets, to reduce factor costs and to enlist government support in export promotion. What is lacking are efforts to help industry improve productivity and introduce new products for which there are international markets.

The Product Development and Productivity Improvement Project (PDPI) provides support for a Private Sector Productivity Center attached to the Panamanian Manufacturers Association (SIP) and operated by the Productivity Development Center (CEDEPRO). The Center will: (1) Conduct a productivity awareness campaign; (2) Conduct studies and pilot programs in Panamanian firms to determine productivity levels, establish productivity measurements and quality control standards and develop productivity models for local industry; (3) Provide productivity improvement assistance to existing and newly formed firms; and (4) Identify specific exportable products suitable for fabrication and/or processing in Panama and assist firms in developing and producing those products efficiently. The project will be carried out with contracted assistance from U.S. consulting firms and the International Executive Service Corps (IESC).

Relationship of Project to AID Country Strategy: This project is consistent with the objectives of the Jackson Plan and the USAID strategy. The project supports increasing orientation of development efforts directly to the private sector. A private institution working directly with private sector firms will be responsible for bringing about direct improvements without costly GOP interventions. It will support economic growth through increasing overall economic efficiency by assisting Panamanian firms in overcoming the painful adjustment process required to become internationally competitive. The project complements Mission efforts to support investment and export promotion, to provide for export development financing and to reorient the public sector to foster the expansion of private sector output and employment.

Host Country and Other Donors: The GOP has stated repeatedly that the private sector will be the motor of economic and employment expansion. Although to date it has achieved little success, the GOP has committed itself to bringing about necessary changes in legislation affecting industrial protection, labor practices and factor pricing which will provide the motivation required to promote private sector export production. Furthermore, the GOP has created semi-autonomous agencies to foster both investment and export promotion. With these changes, the scene would be set for attacking the problem of low productivity within private sector firms. There is no other donor in this critical area of productivity improvement and product development.

Beneficiaries: The direct beneficiaries will be the private sector firms which are selected for project assistance. The project will be directed to those industries and employers who are willing to or are forced to deal with minimal or greatly reduced levels of protection. By demonstrating their ability to not only survive but to expand and prosper in a free market export oriented production mode, the project will have a secondary impact on industries and firms that are reluctant to support change. The secondary beneficiaries will be the workers who find new jobs or are able to keep their current jobs because firms have made adjustments in their productivity and their ability to compete in international markets.

Preliminary Budgets: (\$ Millions)

Technical Assistance	3.4
Training	1.2
Equipment/Material	1.2
Staff support to Institutions	3.0
Project Evaluation	.2
Contingency/Inflation	<u>1.0</u>
TOTAL	\$10 Million (G)

Documentation Schedule:

PID Approval:	USAID/Panama
PID	September, 1986
PP	March, 1987
Authorization	April, 1987

<u>Project Title:</u>	Private Enterprise Support
<u>Project Number:</u>	525-0280
<u>Funding Source:</u>	EHR
<u>Life of Project Funding:</u>	\$5 million (G) \$3 million (L)
<u>FY of Initial Obligation:</u>	FY 1988
<u>FY of Estimated Final Obligation:</u>	FY 1991

Purpose: To restructure the Ministry of Commerce and Industry to enable it to promote the development of the Panamanian private sector.

Project Description: The goal is to promote economic growth through export-oriented production and services. To do this, a rational and effective government role is required to stimulate and support the improved competitive performance of the private sector. The Ministry of Commerce and Industry (MICI), the GOP agency most related to private sector development, has evolved through the last two decades as a regulatory and support instrument for a protectionist and increasingly "statist" economy. MICI is now expected to play a new role as a promoter of development based on competition, export growth and reliance on the private sector. The proposed Private Enterprise Support Project will therefore provide MICI support to: (1) redefine its functions, (2) appropriately assign responsibilities, (3) develop and utilize performance indicators and evaluation mechanisms, (4) reduce staff while retaining or acquiring appropriately qualified personnel, and (5) attain a high degree of efficiency. The proposed project will therefore contribute to increased employment in the private sector, to stimulating new investments oriented to export production and influence the volume and character of exports.

The development of the Private Enterprise Support Project will be carried out in three stages. The first will take place prior to PID preparation, the analysis and redefinition of MICI functions. With the assistance of consultants, an extensive review will be made by MICI leadership of the basic laws, regulations and operating procedures orienting its performance. The result of this study will be suggestions for restructuring MICI and its legal/operational base to enable it to become an aggressive promoter of private sector development. The second stage will be the development of a PID and Project Paper based on the implementation of the above results. The GOP will have to provide realistic and sound evidence of its intentions to undertake a strategic reorganization which will accomplish the policy/administrative support required to meet the project's purpose. The final stage is the implementation of the project which will include the technical assistance, training, commodities and support required by MICI to bring about this restructuring and strengthening of it as a private sector facilitator.

Relationship of Project to AID Country Strategy: The USAID country strategy calls for projects which taken together are a programmatic response to these requirements: (1) identification of markets for Panamanian exports, (2) competitive production in response to market opportunity, and (3) provision of adequate resources to assure production for export markets. This project contributes substantially to item (1) by facilitating export procedures,

mobilizing resources for direct and indirect assistance to producers and by adjusting policies affecting factor costs outside the control of individual. This project responds to the Jackson Plan recommendations calling for promotion of trade opportunities to increase foreign exchange earnings by taking advantage of opportunities such as those provided by the CBI.

Host Country and Other Donors: GOP support will include in-kind MICI technical and support services, equipment and other operating costs. Most important will be the policy support given to introducing the legislative and administrative changes required for such a strategic reorganization. Significant assistance from other international donors to MICI is not currently being planned.

Beneficiaries: The primary beneficiaries will be private sector employees, investors and exporters who will begin to find a supportive friend in the public sector rather than the current obstacle course. Indirect beneficiaries will be those entering the labor force as growth begins to generate a growing number of private sector jobs.

Preliminary Budget (\$ Millions):

	<u>Grant</u>
Technical Assistance	\$2.5
Training	1.0
Budget Support To Institutions	.5
Monitoring and Evaluation	.5
Contingency/Inflation	<u>.5</u>
TOTAL	\$5.0
	<u>Loan</u>
Export Promotion Activities	\$1.0
Equipment and Materials	<u>2.0</u>
TOTAL	\$3.0 (L)

Documentation Schedule:

PID Approval	USAID/Panama
PID	November, 1986
PP	July, 1987
PP Authorization	November, 1987

<u>Project Title:</u>	LAND TITLING
<u>Project No.:</u>	525-0278
<u>Appropriation:</u>	ARDN
<u>Life of Project Funding:</u>	\$10 million (L); \$10 million (G)
<u>FY of Initial Obligation:</u>	1988
<u>FY of Estimated Final Obligation:</u>	1994

Purpose: To create an accurate, efficient, cost-effective land titling system.

Project Description: According to 1981 Agricultural Census data, 75 % of agricultural farmland is untitled. Only 17.5 % of the more than 102,000 farmers operating on farms greater than 0.5 hectares in size have legal title to their lands. Insecurity of tenure is a major constraint to increased agricultural productivity and improved farmer incomes. Lack of legal ownership of farmland affects credit institutions' assessment of farmer credit worthiness. It affects farmer investment, cropping patterns, husbandry practices, and soil conservation maintenance. The lack of clear title, and clear farm boundaries also affects the rate at which environmental degradation occurs. Agricultural production has expanded to areas ill-suited for cultivation or livestock production and resulted in increased soil erosion and encroachment on forest and park reserves.

During FY 86 USAID/Panama is sponsoring a detailed study of the existing constraints to the provision of land titles. This study includes an analysis of the plethora of existing laws which affect land tenure, titling and transfer, the distribution, size and number of titled and untitled land holdings, as well as the legal and intra-legal interrelationships and responsibilities of the National Directorate of Agrarian Reform within the Ministry of Agriculture Development (MIDA), the cadastral survey office within the Ministry of the Treasury, and the Controller General of the Republic.

This study also analyzes the prospective economic return to agriculture if this project is undertaken in view of projected increases in production of exportable or nationally marketable agricultural products. The projected economic impact of this project will be evaluated against its estimated costs in order to determine cost/benefit. Based on its potential economic impact, a decision will then be taken whether or not the project is justifiable. In carrying out this analysis, the design team will consider whether or not untitled land would make significant difference in the production of commercial quantities of those crops which could potentially be exported as well as commodities for which Panama has a comparative advantage in producing for the national market. The Panamanian Institute for Agricultural Research (IDIAP) and USAID's Agriculture Technology Development project will assist in the identification of those crops which can be profitably produced in Panama and the percent of the country on which farming practices are limited by untitled land.

Assuming the economic analysis clearly demonstrates a need for the proposed Land Titling project, a technical assistance team will assist MIDA, the Ministry of the Treasury, the Controller General and concerned local agencies in designing and later implementing an effective land titling program. This will include legal and institutional changes needed to simplify land titling procedures for petitioners for titles, and establishment of a mediation board to respond to claims. Project resources will be employed to finance, if necessary, a cadastral survey and establish information management systems to maintain and update on efficient land title registry. Panamanians will be trained in land titling procedures and in data management systems.

Relationship of Project to AID Country Strategy: By assisting farmers to obtain clear title to the land they work, this project will help achieve the goal stated in the May 1982 Food and Agricultural Development AID Policy Paper of enabling individuals to obtain access to the resources needed to increase their productivity, incomes and well being. This project also supports the Jackson Plan conclusion that improved title registration and the defense of property rights of farmers is one of the important elements in accelerating agricultural development. Finally, by assisting provide clear title to 75% of the farmland and thereby providing farmers with the security they need in order to undertake improvements, this project directly or indirectly complements every project in the AID agriculture sector portfolio.

Beneficiaries: Small and medium size farmers will benefit from the land titling program. Landless rural dwellers will indirectly benefit through increased opportunities for onfarm employment.

	(\$ million)	
	<u>Loan</u>	<u>Grant</u>
Technical Assistance		3
Training		3
Equipment and Material		2
Cadastral Surveys	4	2
Construction	4	-
Inflation and Contingencies	<u>2</u>	<u>-</u>
TOTAL	10	10

Documentation Schedule

PID Approval:	USAID/Panama
PID	Sept. 1987
PP	March, 1988
PP Authorization:	May, 1988

<u>Project Title:</u>	Livestock Production and Marketing
<u>Project No.:</u>	525-0288
<u>Appropriation:</u>	ARDN
<u>Life of Project Funding:</u>	\$15 million (L) \$15 million (G)
<u>FY of Initial Obligation:</u>	1988
<u>FY of Estimated Final Obligation:</u>	1994

Purpose: To increase agriculture income and employment through increased production and marketing of beef.

Project Description: Cattle raising exists throughout Panama with the greatest concentration in Chiriquí, Los Santos and Veraguas provinces. More than 80% of Panama's cattle are in herds of fewer than 50 head. About 5,000 ranches produce meat and milk with dual purpose cattle. All cattle are grass fed because grain feeding is too costly. The carrying capacity is about one head per hectare. There has been no intensification of production and little technology adoption. No beef quality differentiation exists on the hoof or in the butcher shops, except by age and sex. The slaughter and meat packing industry consists of 16 firms, three of which process carcass beef for export.

Based on a USAID Agricultural Assessment and World Bank reports, the beef industry has the best potential of any agriculture commodity for expansion in both domestic and export markets. Domestic consumer demand is high and is expected to continue rising as domestic income rises. Per capita meat consumption is presently 54 pounds per person, third only to Argentina and Uruguay in Latin America. Panamanian beef appears to have a competitive advantage in international markets. Beef export to the U.S. have been low due in part to lax cleanliness standards in Panamanian slaughterhouses. At present, only one slaughterhouse is approved by U.S.D.A. for the export of beef to the United States.

This project will focus on increasing livestock production and related agro-industry income and employment through several activities. First, in conjunction with the Agricultural Policy Formulation and Development Project, policy dialogue with the Government of Panama will be focused on a freeing of beef market prices. This will allow local demand to move prices upward, thereby stimulating increased production.

Second, in cooperation with the Agriculture Technology Development Project, which is field testing improved pasture varieties, and the Agriculture Technology Transfer Project, which is testing and developing extension methodology, livestock farmers with 100 hectares or less and associations of livestock producers will be provided technical assistance, credit and seed to produce improved pastures.

Third, technical assistance and credit will be made available to selected slaughterhouses to upgrade cleanliness standards and meet U.S.D.A. requirements for export to the U.S.

Fourth, credit and technical assistance will be provided for the development of down-stream industries which utilize beef by-products. For example, the processing and canning of beef and vegetable cubes will be promoted, thereby increasing the utilization of beef as well as increasing demand for carrots, celery, potatoes and other vegetables.

In addition, blood and bone meal will also be dried and processed for poultry and swine feed. As locally produced feed becomes available, costs of poultry production will be reduced, thus allowing the price of chicken to drop. This will stimulate increased local demand for poultry, thereby freeing up beef for the higher profit export market.

Fifth, as slaughterhouse operations grow, increased availability of hides will support the growth of hide processing and export, which already is the third largest agro-industry in Panama.

Sixth, as beef production is increased and slaughterhouse cleanliness standards are upgraded, technical assistance will be provided in grading meat and establishing marketing standards for both local and export production. This will improve the palatability of Panamanian beef on the international market and also enable local producers to expand production for hotels and fast-food restaurants in Panama City and elsewhere.

Seventh, technical assistance will help evaluate the potential for expanding local dairy production, particularly milk, cheese and butter.

Project implementing organizations will be private livestock associations, the Ministry of Agricultural Development, and the Autonomous Panamanian Institute for Agricultural Research.

Relationship of Project to AID Country Strategy

The USAID/Panama Agricultural Assessment and Strategy have identified beef production as having the greatest capacity in the agricultural sector for growth between 1985 and 1990, given a propitious policy climate and appropriate production and marketing interventions. This project will build upon the existing policy dialogue with the GOP, and will provide selected intervention to bridge the gap between existing and potential livestock production and marketing. In addition, by strengthening the competitiveness of Panamanian beef in the international market, this project directly supports the Jackson Plan recommendation that the U. S. assist Central American Countries to "...broader export bases...in the agriculture goods sector...". Furthermore, the private sector role in increasing production and exports will be supported and strengthened.

Host Country and Other Donors

In early 1986 the President of Panama reaffirmed his government's support of improved commercialization within Panama and increased export of agriculture produce. In addition, the World Bank has a line of credit available for larger livestock farmers. This project will complement World Bank credit by assisting livestock farmers with 100 hectares or less and also developing livestock processing and down-stream industry. In addition, the IDB has a loan to provide assistance to smaller livestock farmers. By strengthening, processing and marketing services, this project will complement the IDB project.

Beneficiaries: Direct beneficiaries will be farmers engaged in livestock production, e.g. those with 100 hectares or less, agribusiness entrepreneurs will also benefit as they grasp the opportunities for 'by-product' processing and marketing, and the rural populace as a whole will benefit through increased agro-industry employment. Finally, the national economy will be positively affected by the growth in beef production, employment and sales.

Preliminary Budget (\$ millions):

	<u>Loan</u>	<u>Grant</u>
Technical Assistance	—	3
Training	—	1
Equipment and Material	—	3
Credit (Production & Marketing)	15	3
Vehicles	—	1
Marketing Services	—	2
Inflation and contingencies	—	<u>2</u>
TOTAL	15 (L)	15 (G)

Documentation Schedule:

PID Approval:	USAID/Panama
PID:	Sept., 1987
PP:	June, 1988
PP Authorization:	July, 1988

PROJECT PRIORITIES

FY 1987

- | | | |
|----|--|----------|
| 1. | Agriculture Diversification | 505-0266 |
| 2. | Strengthening Local Government | 525-0282 |
| 3. | Product Development and Productivity Improvement | 525-0222 |

FY 1988

- | | | |
|----|------------------------------------|----------|
| 1. | Private Enterprise Support | 525-0280 |
| 2. | Land Titling | 525-0278 |
| 3. | Livestock Production and Marketing | 525-0286 |

PROJECT PRIORITIES
ACTIVE/NEW PROJECTS
FY 1987

<u>Project No.</u>	<u>Project Title</u>	<u>Rank</u>
525-0248	Natural Resource Management	1
525-0261	Private Sector Export Finance	2
525-0247	Ag. Policy Formulation and Management	3
525-0266	Agriculture Diversification	4
525-HG-13	Private Sector Housing	5
597-0001	Central American Peace Scholarships	6
525-0258	Private Sector Scholarships	7
525-0282	Strengthening Local Government	8
525-0272	Product Development and Productivity Imp.	9
525-0250	Development Policy Studies	10
525-0239	National Investment Council of Panama	11
525-0180	Agriculture Technology Development	12
525-0227	Agriculture Technology Transfer	13
525-0222	Agricultural Cooperative Marketing	14
525-0240	Small Business Development	15
525-HG-12	Shelter and Urban Planning	16
525-0281	PANAJURU-Local Scholarships	17
525-0285	Zamorano Scholarships	18
525-0186	Integrated Rural Development	19
525-0275	Industrial Relation Services	20
525-0257	Natural Resources Education	21

DOCUMENTATION/AUTHORIZATION SCHEDULE

	<u>PID</u>	<u>PP</u>	<u>Authorization</u>
Agriculture Diversification	9/86	4/87	5/87
Strengthening Local Government	10/86	5/87	6/87
Prod. Dev. and Prod. Improvement	9/86	3/87	4/87
ESF	11/86*	3/87**	4/87
Private Enterprise Support	11/86	7/87	11/87
Land Titling	9/87	3/88	5/88
Livestock Prod. and Mktg.	9/87	6/88	7/88
ESF	11/87*	2/88**	3/88

* Concept Paper
** PAAD

Mortgage and Pipeline Analysis

By the end of the current fiscal year we estimate that the total authorized amount for active DA projects will be approximately \$166 million, the pipeline \$48 million, and the mortgage \$64 million. The corresponding figures projected for FY87 and FY88 are \$199 million, \$44 million, \$89 million, and \$279 million, \$50 million, \$133 million, respectively. We estimate by the end of FY86, the mortgage will be equivalent to 39% of the authorized amount, the corresponding proportion by the end of FY88 is projected to be 48%. The absolute and relative increase in the mortgage results from the changing character of the portfolio over the next two years, i.e., larger higher impact projects with a longer life of project. Increased mortgages are also a necessary result of reduced portfolios and fewer new starts.

MORTGAGE & PIPELINE ANALYSIS
(In Millions of \$)

FISCAL YEAR	CUMULATIVE AUTHORIZATION	CUMULATIVE OBLIGATION	CUM ACCRUED EXPENDITURES	ACCRUED EXP FOR FY	PIPELINE (COBLG-CEXP)	MORTGAGE (CAUTH-COBLG)
ALL DA PROJECTS:						
FY85	96.3	83.4	43.3	11.3	40.1	12.9
FY86	138.6	89.5	51.7	18.6	37.8	49.1
FY87	171.5	84.2	58.6	25.6	25.6	87.3
FY88	225.5	107.1	80.7	26.6	26.4	118.4
CAPS:						
FY85	27.5	5.4	0.2	0.2	5.2	22.1
FY86	27.5	12.6	2.2	2.0	10.4	14.9
FY87	27.5	25.9	7.2	5.0	18.7	1.6
FY88	53.0	38.9	15.2	8.0	23.7	14.1
TOTAL DA PROJECTS AND CAPS:						
FY85	123.8	88.8	43.5	11.5	45.3	35.0
FY86	166.1	102.1	53.9	20.6	48.2	64.0
FY87	199.0	110.1	65.8	30.6	44.3	88.9
FY88	278.5	146.0	95.9	34.6	50.1	132.5

Summary

PROJECT OBLIGATIONS AS OF 03/31/86

PROJECT TITLE	PROJECT NUMBER	FLANNED	AUTHG.	CURR. OBLIG. F105	LUMN. EIP. F105 PIPELINE	EST. OBLIG. F105	EST. EIP. F105	PRCP. OBLIG. F107	PRCP. EIP. F107	PRCP. OBLIG. F108	PRCP. EIP. F108	PRCP. OBLIG. F109	PRCP. EIP. F109	PRCP. OBLIG. F190	PRCP. EIP. F190	FRDP. OBLIG. F191	FRDP. EIP. F191
ECONOMIC SUPPORT FUND																	
FIN. STAB. & ECO. REC. I & II	6	525-0255	50,000	50,000	50,000	0	0	0	0	0	0	0	0	0	0	0	0
FIN. STAB. & ECO. REC. III	6	525-0280	5,742	0	0	5,742	5,742	0	0	0	0	0	0	0	0	0	0
FIN. STAB. & ECO. REC. IV	5		28,000	0	0	0	0	28,000	28,000	0	0	0	0	0	0	0	0
FIN. STAB. & ECO. REC. V - VIII	6		190,000	0	0	0	0	0	0	44,000	44,000	44,000	44,000	50,000	50,000	50,000	50,000
TOTAL EIP. GRANTS			273,742	50,000	50,000	5,742	5,742	28,000	28,000	44,000	44,000	44,000	44,000	50,000	50,000	50,000	50,000
TOTAL EIP. LOANS			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

PROJECT TITLE	PROJECT NUMBER	FLANNED	AUTHG.	CURR. OBLIG. F105	LUMN. EIP. F105 PIPELINE	EST. OBLIG. F105	EST. EIP. F105	PRCP. OBLIG. F107	PRCP. EIP. F107	PRCP. OBLIG. F108	PRCP. EIP. F108	PRCP. OBLIG. F109	PRCP. EIP. F109	PRCP. OBLIG. F190	PRCP. EIP. F190	FRDP. OBLIG. F191	FRDP. EIP. F191
CENTRAL AMERICAN PEACE SERVICE																	
FIN. STAB. & ECO. REC. I & II	6	597-0001	53,000	27,500	5,186	214	5,186	13,250	5,000	13,130	8,000	11,700	8,000	2,320	8,000	0	8,000
TOTAL EIP. GRANTS			542,865	131,776	140,320	95,686	40,634	46,100	55,687	73,000	72,368	75,000	77,419	85,000	75,925	60,000	85,100
TOTAL EIP. LOANS			398,356	73,548	81,967	17,892	17,050	39,300	40,572	60,500	59,738	62,060	61,741	69,000	64,925	67,346	67,660

PROJECT TITLE	PROJECT NUMBER	FLANNED	AUTHG.	CURR. OBLIG. F105	LUMN. EIP. F105 PIPELINE	EST. OBLIG. F105	EST. EIP. F105	PRCP. OBLIG. F107	PRCP. EIP. F107	PRCP. OBLIG. F108	PRCP. EIP. F108	PRCP. OBLIG. F109	PRCP. EIP. F109	PRCP. OBLIG. F190	PRCP. EIP. F190	FRDP. OBLIG. F191	FRDP. EIP. F191
TOTAL COUNTRY																	
FIN. STAB. & ECO. REC. I & II			595,865	159,276	165,720	99,900	45,820	59,350	60,687	86,130	80,368	90,700	85,479	87,320	86,925	88,000	93,100
FIN. STAB. & ECO. REC. III			459,396	97,048	99,497	72,106	17,391	52,530	53,572	73,630	67,738	73,700	69,741	71,320	72,925	67,346	75,660
FIN. STAB. & ECO. REC. IV			144,469	58,208	56,223	27,794	28,429	6,800	15,115	12,500	12,650	17,000	15,738	16,000	14,000	20,454	17,500
FIN. STAB. & ECO. REC. V - VIII																	

PART III - MANAGEMENT

Initiatives in Management: The Director recently, as a result of discussions with Division Chiefs and their concern to improve the quality of our assistance and the efficiency of delivery, redelegated to U.S. Direct Hire Office Chiefs the authority to approve certain documents, provided that for all such approvals listed below the request for approval is not transmitted by a Minister and the USAID approval or response is not sent to a Minister:

1. Host Country Contractors: Approval of selection of contractor is authorized.
2. Host Country Contract: The relevant office chief may approve a host country contract for goods or services.
3. Host Country IFBs and RFPs: The relevant office chief may clear such IFBs and RFPs subject to the general proviso above.
4. Project Implementation Letters (PILs): PIL No.1 will be sent to a Minister (the official Representative) and will designate the USAID office chief who will sign subsequent PILs. Accordingly, PIL No.1 will be signed by the Director and subsequent PILs will be signed by the relevant office chief, subject to the general proviso above.
5. Documentation Submitted to Fulfill Conditions Precedent: The relevant office chief will sign the approval letter with the RLA's clearance as necessary.
6. Transfer excess Property and Trust Agreements: This authority has already been redelegated.
7. PIOs: The authority to approve PIOs will rest with the office chief provided that clearances are obtained from CONT, CDR and RCO or, in the absences of RCO, the EXO chief. All PD&S PIOs will be approved by the Chief of ODP.

Staffing and Operating Expense Requirements: We anticipate a small increase in staff in FY 1987 with FY 1988 remaining constant. All new positions are PSCs and will be program funded. In addition we will reduce OE funded positions from 65 to 62 (1 JCC will be eliminated in FY 1986 and one transferred to project funding in FY 1987 at the end of his current tour. Also, one USPSC will be transferred to program funds). Direct hire staff will remain constant at 21 US and 38 FSMs. One USPSC in the Executive Office and two FSN PSCs in the Controller's Office will be funded from Operating Expense.

We have budgeted operating expenses at the minimal level. Nevertheless, our operating allowance request represents a 14% and 11% increase in FY 1987 and 1988 respectively. Two factors are paramount in this increase; (1) Lease cost of the Cemento Panama Building will more than double in FY 1987 and we have projected a move to new quarters in late FY 1988 and (2) The recently approved FSN compensation plan increased salary rates by over 22% retroactive to August 1985. Current budget projections for FY 1986 indicate a shortfall in funding the Management Support Contract by \$160,000. This shortfall is budgeted in FY 1987.

Trust Funds: Panama is a dollar economy. Our ESF thus far has been for budgetary support. No local currency is generated and the continuing GOP fiscal crisis makes it impractical to consider a trust fund at this time.

Automation: In keeping with the Ink Commission recommendations to install data processing capability in Panama to accommodate both program and financial management requirements, a WANG VS-65 with peripheral equipment has been purchased with a configuration to meet all the word processing and data processing needs of the entire Mission. This equipment has just arrived and is scheduled for installation during the next few months. Initial preparation for the implementation of MACS (Mission Accounting and Control System) has been initiated and will be implemented during the balance of the calendar year. This system will enhance controls on financial operations and will provide more timely and useful reports to Mission management and project officers for management of their projects/programs.

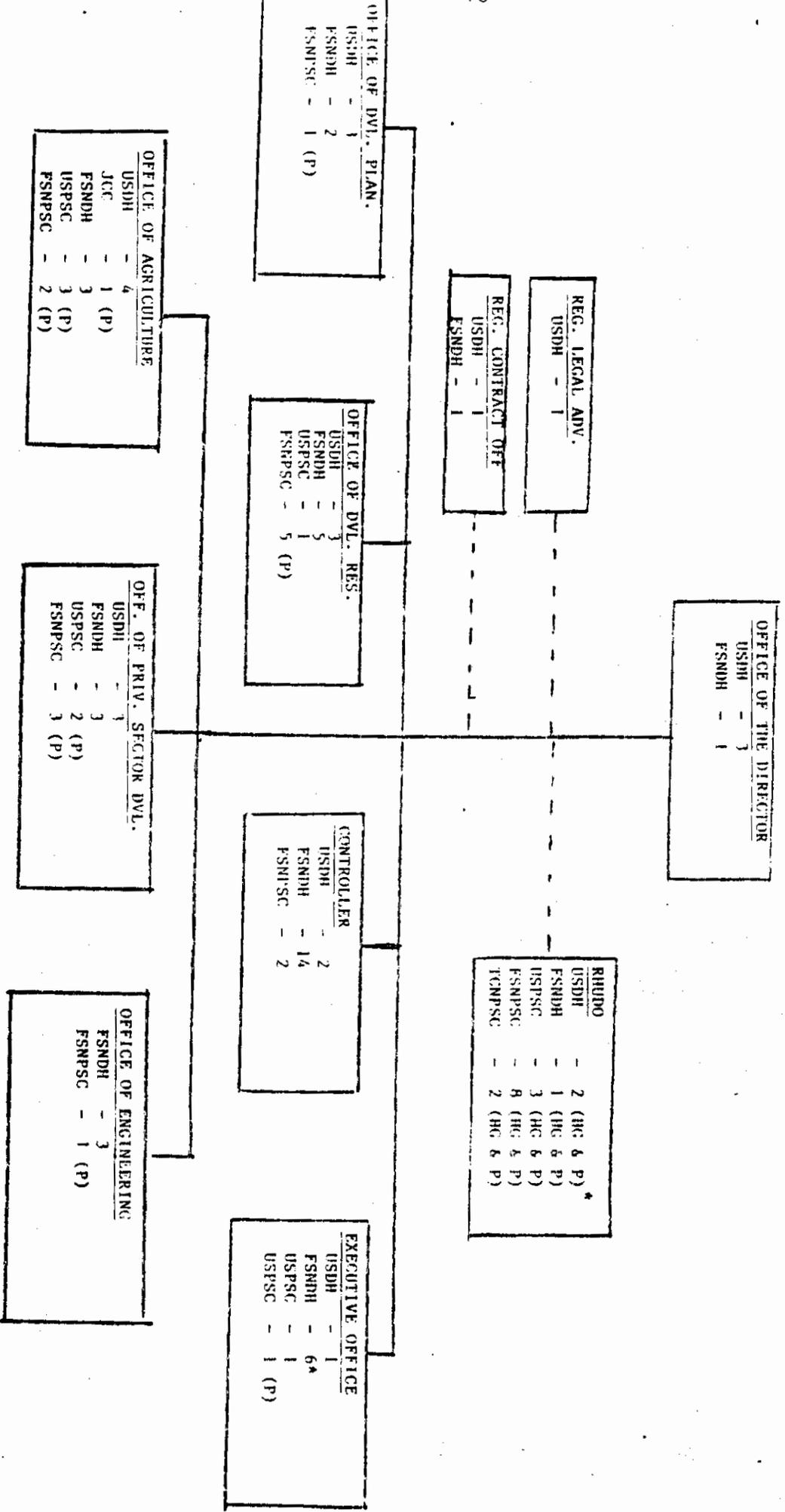
Office Building and Procurement Plans: The USAID Office building (Cemento Panama) is at least 35 years old and is in poor condition. The Lessor provides only cosmetic maintenance. Security is precarious at best as building is located across from the University of Panama with its politically active students and sits on the corner of a major traffic intersection adjacent to the street. An office move, as soon as possible, is essential. Aside from the poor physical condition of the building and its security posture, conditions which by themselves justify a move, we have simply outgrown the building in terms of space required. While rental office space is available in Panama City, none has met stringent security requirements. Therefore, we have solicited proposals from local entrepreneurs to construct an office building to meet our specifications. It will be a long-term lease turn-key arrangement with an option to buy. Through a process of elimination, a selection will be made from the four (4) finalists in late FY 1986 at which time architectural drawings and cost proposals will be submitted. Completion and occupancy of the new building is targeted for FY 1988. We estimate rent to be approximately \$400,000 annually.

Beginning in FY 1986, the Mission initiated a four-year program to replace office furniture. Much of our furniture has been in constant use for over 20 years and has deteriorated e.g. unreparable broken desk drawers, lack of tension of reclining backs to swivel desk chairs, etc. This first time replacement program is planned to coincide with the occupancy of the new office building.

In FY 1987, a major program is planned to upgrade the Mission's radio communications system. Funds are budgeted to install mobile radios in Mission vehicles and technically enhance and expand the capability of our hand-held radios to meet administrative and security requirements.

All other non-expendable property procurements e.g. vehicles, office equipment, etc., in FY 1987 and 1988 will be normal replacement actions. Replacement of residential furnishings was accomplished during FY 1984 to FY 1986 and are not planned in the FY 1987 or 1988.

ORGANIZATIONAL PLAN



NOTE: All positions of funded unless indicated otherwise as HG (Housing Guarantee) or P (Project).

* One P/T

FY-87 - STAFFING

<u>OFFICE</u>	<u>USDH</u>	<u>FSNDH</u>	<u>USPSC</u>	<u>FSNPSC</u>
<u>DIR</u>	Director Deputy Secretary	Exec. Asst.		
<u>ODP</u>	S/Program Off Prog. Off. Prog. Econ.	Prog. Spec. Secretary		Economist
<u>ODR</u>	S/Proj. Dvl. Off. Proj. Dvl. Off. Proj. Dvl. Off.	Prog. Spec. Prog. Spec. Part. Trng. Asst. Secretary Secretary	Eval. Off	Dep. CAPS Dep. Part. Trng. Mgt. Asst. Mgt. Asst. Secretary
<u>CONT</u>	Controller Acct. Fin. Analyst	Secretary Clk/Steno Bud Analyst Supv Acct Tech Acct Tech Acct Tech Acct Tech Supv Vou Exam Vou Exam Vou Exam Fin Analyst Fin Analyst Cashier Accountant (MACS)		Fin. Analyst (OE) Acct (OE)
<u>EXO</u>	S/Executive Off.	Adm. Mgt. Spec. Secretary Personnel Asst. Admin. Asst. Proc. Computer Operations Mgr. Clk/Steno **	Mgt Asst (OE) Librarian *	
<u>AGR</u>	S/Ag. Dvl. Off. S/Ag. Dvl. Off. Ag. Dvl. Off. Ag. Dvl. Off. Ag. Econ. (JCC)	Prog Specialist Prog Specialist Secretary	Project Mgr. RENARE Adv. RENARE Adv.	Asst. Proj. Mgr. Secretary
<u>PSD</u>	S/Trd/Dvl Officer HRDO/Skills Priv. Ent. Off.	Proj. Spec. Secretary Secretary	Priv Ent Dvl Sp Mgt. Advisor	Prog. Asst. Prog. Asst. Bus. Analyst

* Terminate 8/87

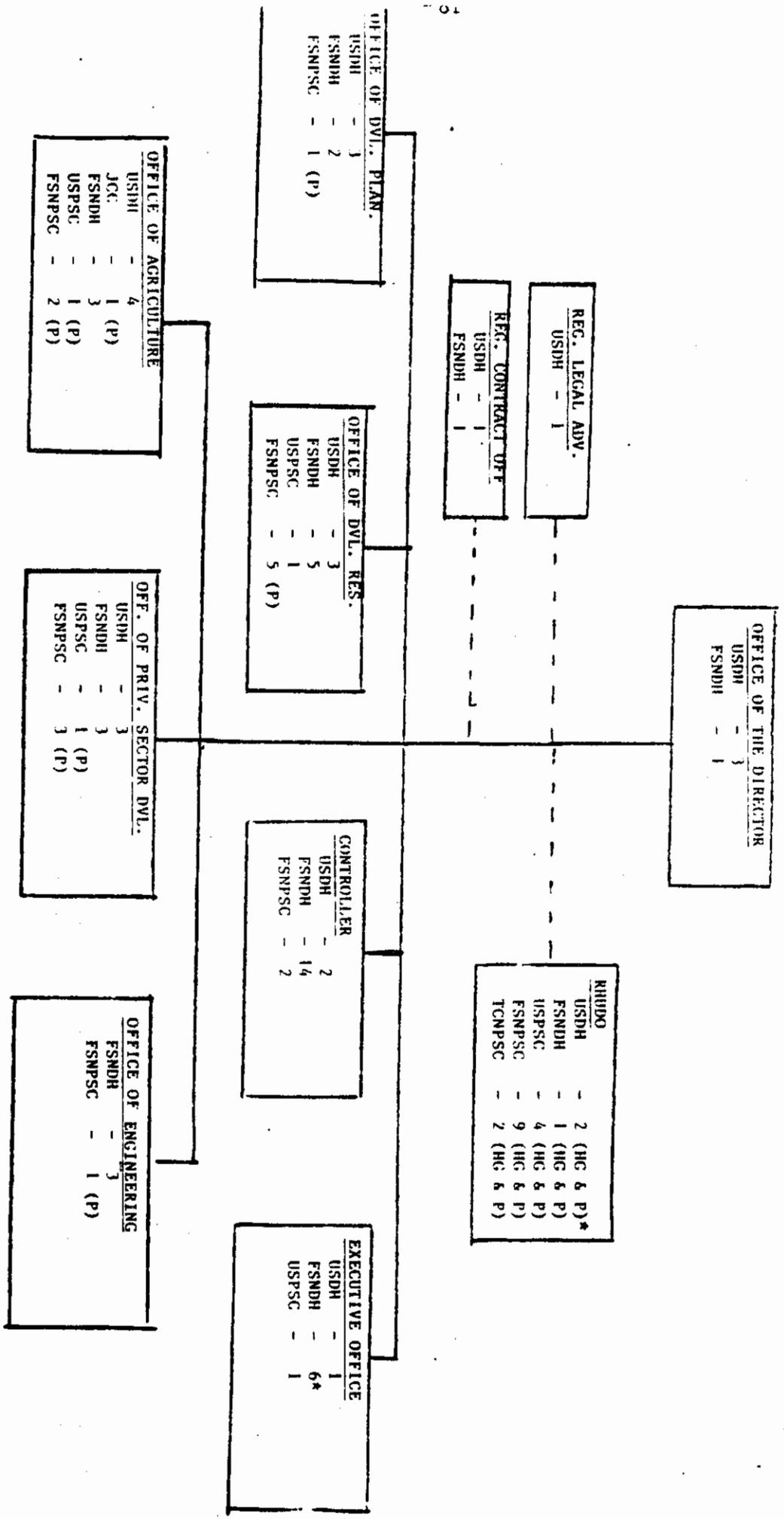
** FSNDH P/T

Note: All PSCs and JCC's are project funded unless specifically indicated as OE.

<u>OFFICE</u>	<u>USDH</u>	<u>FSNDH</u>	<u>USPSC</u>	<u>FSNPSC</u>
<u>ENG</u>		Engineer Engineer Secretary		Engineer
<u>RCO</u>	Contract Off.	Proc. Agent		
<u>RLA</u>	Reg. Leg. Adv.			
<u>RHUDO</u>	S/Reg. Hsg. Off. Reg. Hsg. Off.	Secretary	Admin. Asst. Reg. Fin/Pol. Adv. LATC Dir. 1/ Reg Prog Sp. 1 Reg. Fin. Spec.	Trng. Coordinator Secretary Secretary Clk/Typist Secretary Receptionist Janitress Driver

1/ TCN/PSC

ORGANIZATIONAL PLAN



* NOTE: All positions OE funded unless indicated otherwise as HG (Housing Guarantee) or P (Project).

* One P/T

FY-88 - STAFFING

<u>OFFICE</u>	<u>USDH</u>	<u>FSNDH</u>	<u>USPSC</u>	<u>FSNPSC</u>
<u>DIR</u>	Director Deputy Secretary	Exec. Asst.		
<u>ODP</u>	S/Program Off Prog. Off. Prog. Econ.	Prog. Spec. Secretary		Economist
<u>ODR</u>	S/Proj. Dvl. Off. Proj. Dvl. Off. Proj. Dvl. Off.	Prog. Spec. Prog. Spec. Part. Trng. Asst. Secretary Secretary	Eval. Off	Dep. CAPS Dep. Part. Trng. Mgt. Asst. Mgt. Asst.
<u>CONT</u>	Controller Acct. Fin. Analyst	Secretary Clk/Steno Bud Analyst Supv Acct Tech Acct Tech Acct Tech Acct Tech Supv Vou Exam Vou Exam Vou Exam Fin Analyst Fin Analyst Cashier Accountant (MACS)		Fin. Analyst (OE) Acct (OE)
<u>EXO</u>	S/Executive Off.	Adm. Mgt. Spec. Secretary Personnel Asst. Admin. Asst. Proc. Computer Operations Mgr. Clk/Steno *	Mgt Asst (OE)	
<u>AGR</u>	S/Ag. Dvl. Off. S/Ag. Dvl. Off. Ag. Dvl. Off. Ag. Dvl. Off. Ag. Econ. (JCC)	Prog Specialist Prog Specialist Secretary	Project Mgr.	Asst. Proj. Mgr. Secretary
<u>PSD</u>	S/Trd/Dvl Officer HRDO/Skills Priv. Ent. Off.	Proj. Spec. Secretary Secretary	Priv Ent Dvl Sp	Prog. Asst. Prog. Asst. Bus. Analyst

* FSNDH P/T

Note: All PSCs and JCC's are project funded unless specifically indicated as OE.

<u>OFFICE</u>	<u>USDH</u>	<u>FSNDH</u>	<u>USPSC</u>	<u>FSNPSC</u>
<u>ENG</u>		Engineer Engineer Secretary		Engineer
<u>RCO</u>	Contract Off.	Proc. Agent		
<u>RLA</u>	Reg. Leg. Adv.			
<u>RHUDO</u>	S/Reg. Hsg. Off. Reg. Hsg. Off.	Secretary	Admin. Asst. Reg. Fin/Pol. Adv. LATC Dir. 1/ Reg Prog Sp. 1 Reg. Fin. Spec. Reg Urb Dvl Adv	Trng. Coordinator Secretary Secretary Clk/Typist Secretary Biling/EDIT Pub. Spe Receptionist Janitress Driver

1/ TCM/PSC

FY-87 THROUGH FY-88
USAID PANAMA - AMERICAN EMPLOYEES RECREATION AND WELFARE ASSOCIATION
MANAGEMENT SUPPORT CONTRACT

<u>TITLE</u>	<u>PER GRADE (EQUIV.)</u>
<u>I. EXECUTIVE OFFICE</u>	
Translator	FSN-7
Librarian	FSN-7 (FY 88 only)
Clk/Typist	FSN-4
<u>Communications & Records</u>	
Administrative Asst	FSN-8
Mail Clerk	FSN-4
Offset Press Operator	FSN-3 (SR)
Messenger	FSN-3
Messenger	FSN-3
<u>Excess Property</u>	
Supply Assistant	FSN-8
Supply Clerk	FSN-5
Secretary	FSN-5 (SR)
<u>General Services Office</u>	
Supply Supervisor	FSN-8 (SR)
Shipping/Transp. Motor Pool	FSN-8
Maintenance Supervisor	FSN-7
Secretary	FSN-5
Clerk Typist	FSN-4
Procurement Clerk	FSN-6
Telephone Operator	FSN-4
Mechanic (Electrician)	FSN-4
Carpenter	FSN-4
Mechanic (Plumber)	FSN-4
Mechanic (Ref and A/C)	FSN-4
General Maintenance	FSN-3 (SR)
Supply Clerk	FSN-3
Supply Clerk	FSN-3
General Maintenance	FSN-4
Janitress (Supervisor)	FSN-1
Janitress	FSN-1
Janitress	FSN-1
Janitress	FSN-1
Janitress (Day Time)	FSN-1

<u>TITLE</u>	<u>PER GRADE (EQUIV.)</u>
<u>Motor Pool</u>	
Dispatcher	FSN-5 (SR)
Asst. Dispatcher	FSN-4 (FY 87 only)
Mechanic (Automotive)	FSN-4 (SR)
Chauffeur	FSN-3
Chauffeur	FSN-3 (SR)
Mechanic (Automotive)	FSN-3
Chauffeur	FSN-3
Chauffeur	FSN-3
Chauffeur	FSN-3
<u>Security Guard</u>	
Guard/Watchman	FSN-2
Gate Guard	FSN-1
Guard/Watchman	FSN-1
Guard/Watchman	FSN-1
Guard/Watchman	FSN-1
<u>Travel</u>	
Travel Assistant	FSN-8
<u>Wang Word Processing Center</u>	
Info Processing Spec.	FSN-8
II. <u>RLA OFFICE</u>	
Secretary	FSN-7
Legal Aide	FSN-9
III. <u>REGIONAL CONTRACTING OFFICE</u>	
Secretary	FSN-7
Clk-Typist	FSN-4
IV. <u>OFFICE OF DVL. PLANNING</u>	
Secretary	FSN-6

V. OFFICE OF DVL. RESOURCES

Secretary FSN-6

VI. OFFICE OF PRIVATE SECTOR DVL.

Secretary FSN-6
Secretary FSN-5

VII. OFFICE OF AGRICULTURE

Secretary FSN-6
Secretary FSN-5
Secretary FSN-5

VIII. OFFICE OF THE DIRECTOR

Chauffeur FSN-3

USAID/PANAMA
Operating Expense Budget For FY 1987

	FUNCTION CODE	DOLLAR FUNDED	UNITS	NOTES
<u>U.S. DIRECT HIRE</u>				
U.S. Citizen Basic Pay*	U100	1652.0	XXXX	
Educational Allowances	U101	1245.0	21.0	
Retirement-U.S.*	U106	114.0	23.0	A
Other AID/W-Funded O.C. 12*	U107	105.0	XXXX	
Other Mission Funded O.C. 12	U109	31.0	XXXX	
Post Assignment-Travel	U110	31.0	XXXX	B
Post Assignment-Freight	U111	16.0	5.0	B
Home Leave - Travel	U112	48.0	5.0	B
Home Leave - Freight	U113	34.0	17.0	C
Education Travel	U114	11.0	17.0	C
All other Code 215 Travel	U115	11.0	9.0	D
	U117	6.0	5.0	E
<u>FOREIGN NATIONAL DIRECT HIRE</u>				
Basic Pay	U200	1290.0	XXXX	F
Overtime Holiday Pay	U201	1010.0	37.8	
All Other Code 11 - FN	U202	30.0	1.0	
All Other Code 12 - FN	U203	5.0	XXXX	
Benefits Former FN Personnel	U204	220.0	XXXX	
	U205	25.0	XXXX	
<u>CONTRACT PERSONNEL</u>				
US PSC - Salary/Benefits	U300	1470.0	XXXX	
All Other - US PSC Costs	U302	105.0	1.7	G
FN PSC - Salary & Benefits	U303	80.0	XXXX	G
All Other FN PSC Costs	U304	60.0	2.0	H
Manpower Contracts	U305	5.0	XXXX	H
JCC Costs paid by AID/W *	U306	1190.0	67.0	I
	U307	30.0	0.5	J
<u>HOUSING</u>				
Rent	U400	530.0	XXXX	
Utilities	U401	65.0	3.0	K
Quarters Allowances	U402	16.0	XXXX	K
Purchases Res.Furn/Equip.	U404	430.0	20.5	L
Trans./Freight - Code 311	U405	12.0	XXXX	M
Official Residence Allowances	U406	-	XXXX	M
Representation Allowances	U408	5.0	XXXX	
	U409	2.0	XXXX	
<u>OFFICE OPERATIONS</u>				
Rent	U500	1043.0	XXXX	
Utilities	U501	270.0	XXXX	N
Building Maint./Renovation	U502	70.0	XXXX	O
Office Furniture/Equipment	U503	32.0	XXXX	O
Vehicles	U504	31.0	XXXX	M
Other Equipment	U505	38.0	XXXX	M
Transportation/Freight	U506	31.0	XXXX	M
Furn/Equip/Vehicle Repair/Maint	U507	12.0	XXXX	M
Communications	U508	75.0	XXXX	O
Security Guard Services	U509	75.0	XXXX	O
Printing	U510	25.0		P
Site Visits-Mission Personnel	U511	30.0	XXXX	O
Site Visits-AID/W Personnel	U513	52.0	235.0	
Information Meetings	U514	27.0	12.0	
Training Attendance	U515	6.0	4.0	
Conference Attendance	U516	20.0	15.0	
Other Operational Travel	U517	20.0	10.0	
Supplies and Materials	U518	5.0	5.0	
FAAS *	U519	130.0	XXXX	O
All other Code 25	U520	14.0	XXXX	
	U524	80.0	XXXX	O
Total OE Budget		5,985.0	XXXX	
*Reconciliation		1,425.0	XXXX	
Operating Allowance Request		4,560.0	XXXX	

USAID/PANAMA
Notes for FY 1987 Operating Expense Budget

- A. Based on projection of 23 students; 17 in DODDS at \$5200 and 6 in International School at \$4200.
- B. Assumes three assignments to USAID and two rotations to AID/W.
- C. Includes 8 HL/RTP and return travel to USA for one JOC.
- D. Nine RT's at \$1200.
- E. Five Emergency visitation/medical travel at \$1200.
- F. Assumed 37 full time FSN's and one part time with 5% salary increase.
- G. One Long Term PSC in EXO and three short term PSC's for 3 months each to cover during Home Leaves/Vacancies.
- H. Two PSC's in the Office of the Controller.
- I. Based on 58 workyears with 5% salary increase and projected \$160,000 (9 person years) shortfall in funding in FY 1986.
- J. JOC in Agriculture transferred to project funding in April 1987 (end of first tour).
- K. Director's residence and two transient quarters.
- L. Assumed 10% increase in LQA rates.
- M. See Procurement Plan.
- N. Rent for Cemento Panama Bldg. increases to \$225,000 per year; Warehouse \$45,000.
- O. Going rate plus 10% inflation.
- P. Limited armed guard service at Cemento Panama.

USAID/PANAMA
Operating Expense Budget For FY 1988

	FUNCTION CODE	DOLLAR FUNDED	UNITS	NOTES
<u>U.S DIRECT HIRE</u>				
U.S.Citizen Basic Pay *	U100	1765.0	XXXX	
Educational Allowances	U101	1285.0	21.0	
Retirement-U.S *	U106	146.0	28.0	A
Other AID/W-Funded O.C. 12 *	U107	108.0	XXXX	
Other Mission Funded O.C. 12	U109	32.0	XXXX	
Post Assignment-Travel	U110	48.0	XXXX	B
Post Assignment-Freight	U111	27.0	8.0	B
Home Leave - Travel	U112	84.0	8.0	B
Home Leave - Freight	U113	10.0	8.0	C
Education Travel	U114	4.0	8.0	C
All other Code 215 Travel	U115	13.0	9.0	D
	U117	8.0	5.0	E
<u>FOREIGN NATIONAL DIRECT HIRE</u>				
Basic Pay	U200	1430.0	XXXX	F
Overtime Holiday Pay	U201	1140.0	37.8	
All Other Code 11 - FN	U202	35.0	1.0	
All Other Code 12 - FN	U203	5.0	XXXX	
Benefits Former FN Personnel	U204	230.0	XXXX	
	U205	20.0	XXXX	
<u>CONTRACT PERSONNEL</u>				
US PSC - Salary/Benefits	U300	1400.0	XXXX	
All Other - US PSC Costs	U302	110.0	1.7	G
FN PSC - Salary & Benefits	U303	80.0	XXXX	H
All Other FN PSC Costs	U304	65.0	2.0	H
Manpower Contracts	U305	5.0	XXXX	H
	U306	1140.0	58.0	
<u>HOUSING</u>				
Rent	U400	575.0	XXXX	
Utilities	U401	70.0	3.0	J
Quarters Allowances	U402	16.5	XXXX	K
Purchases Res.Furn/Equip.	U404	470.0	20.0	L
Trans./Freight - Code 311	U405	11.0	XXXX	L
Official Residence Allowances	U406	-	XXXX	L
Representation Allowances	U408	5.5	XXXX	
	U409	2.0	XXXX	
<u>OFFICE OPERATIONS</u>				
Rent	U500	1340.0	XXXX	
Utilities	U501	445.0	XXXX	M
Building Maint./Renovation	U502	75.0	XXXX	N
Office Furniture/Equipment	U503	145.0	XXXX	O
Vehicles	U504	21.0	XXXX	L
Other Equipment	U505	20.0	XXXX	L
Transportation/Freight	U506	11.0	XXXX	L
Furn/Equip/Vehicle Repair/Maint	U507	8.0	XXXX	L
Communications	U508	85.0	XXXX	N
Security Guard Services	U509	80.0	XXXX	N
Printing	U510	30.0	XXXX	P
Site Visits-Mission Personnel	U511	35.0	XXXX	N
Site Visits-AID/W Personnel	U513	55.0	240.0	
Information Meetings	U514	30.0	14.0	
Training Attendance	U515	7.0	4.0	
Conference Attendance	U516	21.0	19.0	
Other Operational Travel	U517	21.0	13.0	
Supplies and Materials	U518	6.0	3.0	
FAAS *	U519	140.0	XXXX	N
All other Code 25	U520	15.0	XXXX	
	U524	90.0	XXXX	N
Total OE Budget		6510.0	XXXX	
*Reconciliation		1440.0	XXXX	
Operating Allowance Request		5070.0	XXXX	

USAID/PANAMA
NOTES FOR FY 1988 OPERATING EXPENSE BUDGET

- A. Based on projection of 28 students; 21 in DODDS at \$5500 and 7 in International School at \$4500.
- B. Assumes five assignments to USAID and two rotations to AID/W.
- C. Includes 3 HL/RTP.
- D. Nine students at \$1,400.
- E. Five Emergency Visitation/Medical travel at \$1,400.
- F. Assumed 37 full time FSN's and one part time with 5% salary increase.
- G. One Long Term PSC in EXO and three short term PSC's for 3 months each to cover during Home Leave/Vacancies.
- H. Two PSC's in the Office of the Controller.
- I. Based on 58 workyears with 5% salary increase.
- J. Director's residence and two transient quarters.
- K. Assumed 10% increase in LOA rates.
- L. See Procurement Plan.
- M. Assume move to new quarters in FY 1988. Rent of new building estimated at \$400,000 and warehouse \$45,000.
- N. Going rate plus 10% inflation.
- O. Includes maintenance of Cemento Panama Bldg. for nine months (\$25,000) and carpets (\$35,000), partitions (\$75,000) and draperies (\$10,000) for new office building.
- P. Limited Armed Guard Service.

ACTION PLAN FY-87-88
PROCUREMENT PROJECTIONS

U405 Residential Furniture & Equipment

ITEM	FY 87		FY 88	
	QTY.	COST	QTY.	COST
Bal/kitchenette sets	12	\$ 1,800	-	-
Dehumidifiers	6	1,140	6	\$ 1,140
Refrigerators	4	2,400	4	2,400
Washers	3	1,200	3	1,200
Dryers	3	900	3	900
Stove, elec.	3	1,500	3	1,500
Stove, gas.	3	1,200	3	1,200
Hot water heater, elec.	2	320	2	320
Hot water heater, gas	2	300	2	300
Ironing boards	6	90	6	90
Rugs (12x15)	2	400	4	800
Rugs (12x9)	2	200	4	400
Totals		\$11,450		\$10,270
Transportation (U-406)	-	-	-	-

U-504 Office Furniture & Equipment

Desks (Sec)	10	\$ 2,000	10	\$ 2,000
Desks (Exec)	20	4,700	20	4,700
Chair, swivel (Sec)	10	750	10	750
Chair, swivel (Exec)	20	2,000	20	2,000
Chair, straight w/o arms	30	1,200	30	1,200
Chair, straight w/arms	10	750	10	750
Tables, 36x60	10	1,500	5	750
Bookcases	15	2,625	10	1,750
Credenzas	10	1,750	10	1,750
Calculators	5	1,000	5	1,000
Typewriters	12	7,200	6	3,600
WANG peripherals	-	5,000	-	-
Totals		\$30,525		\$20,250
Transportation (U-507)		\$ 7,600		\$ 5,100

U-505 Vehicles

Ford Fairmont (PP-50)	1	\$ 9,000		
Ford Fairmont (PP-51)	1	9,000		
Ford Fairmont (PP-52)	1	9,000		
Chev. Panel (PNP-51)	1	11,000		
Ford Panel (PNP-55)			1	\$11,000
Jeep (PNP-52)			1	9,000
Total		\$38,000		\$20,000
Transportation (U-507)		\$ 3,600		\$ 1,800

<u>ITEM</u>	<u>FY 87</u>		<u>FY 88</u>	
	<u>QTY.</u>	<u>COST</u>	<u>QTY.</u>	<u>COST</u>
<u>U-506 Other</u>				
A/C (18,000 BTU)	5	\$ 2,500	5	\$ 2,500
A/C (13-15,000 BTU)	15	7,500	15	7,500
Floor Fans	5	600	5	600
Table Fans	5	350	5	350
Mobile Radio Equipment		30,000		
Totals		\$40,950		\$10,950

EVALUATION PLAN

USAID/Panama Mission Evaluation Schedule FY 87 & 88

Proj. No.	Project Title	Next Evaluation (qtr./FY)	Type
0240	Small Business Development	1/87	formative
0247	Agricultural Policy and Management	2/87	formative
0186	Integrated Rural Development Sur de Veraguas	3/87	summative
0250	Development Policy Studies	3/87	formative
0130	Central American Peace Scholarships (CAPS)	4/87	formative
0239	Investment Council of Panama (ICP)	4/87	summative
0222	Agricultural Cooperative Marketing	1/88	formative
HG-013	Private Sector Shelter Development	3/88	formative
0248	Natural Resources Management	3/88	formative
0258	Private Sector Scholarships (COSPAE)	1/88	summative
0227	Agricultural Technology Transfer (ATT)	3/88	summative

Evaluation Plan Narrative

The FY 1987 and 1988 evaluation plan is based on the Mission's commitment to improve the utility of evaluations for project management purposes, and to further integrate the evaluation effort into the program development process.

This plan calls for fewer evaluations but a deeper analysis of sectoral conditions and issues beyond the immediate project framework.

In order to present the cross-sectional nature of the evaluation strategy this narrative divides the portfolio in four major themes: Finance, Policy Development, Technology Transfer and International Training and Scholarships. These major themes represent broad substantive areas of Mission activity present in more than one sector.

1. Finance

In 1987 and 1988 USAID Panama will have five active projects that share the common purpose of encouraging structural change in the local capital markets through the provision of loan funds. A major consideration of each formative evaluation will be the effect the project has had on those markets and institutions. The evaluations will seek to determine if the projects are simply transferring capital to fill a gap or if projects are inducing the mobilization of locally generated investment capital to make the market dynamic and self-sufficient. In addition, the formative evaluation will assess progress and make recommendations for improving design and/or implementation.

The Small Business Development Project (525-0240) design marks a successful initiative toward policy change brought about by the joint USAID-GOP study of small scale enterprise credit projects funded by IDB, IBRD and AID. As a result, the GOP has accepted the concept of market rates of interest, and private sector management and marketing of credit. Public sector support now consists of a Directorate within the Ministry of Commerce and Industry (MICI), which provides business assistance to small scale enterprises and a Small Business Development Council. Previously this Directorate considered itself the regulator of the sector as well as its bank.

The scheduled FY 1987 formative evaluation of the Small Business Development Project (525-0240) will measure the progress of the credit component and will analyze the MICI Small Business Directorate component of the project to determine the administrative efficiency and the ability of the Directorate to respond to changing demands.

The Private Sector Export Financing Project 525-0261 will focus on long term project lending of a much larger size. The project will retail its funds through a new private development bank with an in-house credit analysis/project appraisal capability. The first formative evaluation which will be carried out during FY 1989 and, in addition to measuring the level of project achievement against the logframe, will take a close look at the sectoral issue of whether the bank is in fact expanding the total amount of credit for investment or simply competing with existing banks for the same business.

The Agricultural Cooperative community is perhaps the private economic sub-group that has been most severely hobbled by sudden shrinkage of government spending. The movement is institutionally guided and supported by the Instituto Panameño de Cooperativas (IPACCOOP) which is an autonomous government agency adjunct to the Ministry of Planning and Economic Policy (MIPPE). Since 1983 government financial and technical support levels have been decreased for many of the weaker cooperatives in an effort to concentrate successively more limited resources in the cooperatives judged able to absorb those resources. Currently, COAGRO the institution supplying agricultural inputs to the cooperatives, was intervened by its principal creditor, the Banco de Desarrollo Agropecuario (BDA). Both of these organizations are important implementing agencies in the Agricultural Cooperative Marketing project. Because of these major changes in the project conditions, a special evaluation will be carried out in FY 1986. This evaluation will review the project design in light of the current institutional setting in order to provide the information to immediately adjust project implementation and if necessary modify the design. Because of the uncertainty regarding the institutional framework of the Panamanian cooperative movement and the delays in implementation, the formative evaluation scheduled for the fourth quarter of FY 1987 has been postponed to the first quarter of 1988.

The FY 1988 formative evaluation of the Agricultural Cooperative Marketing project (525-0222) will focus principally on the success of project management in establishing a cost-effective credit and information support system for client cooperatives. Administrative and financial self-sufficiency will be an important issue at this juncture. As a project that allocates a relatively large amount of term capital to the agricultural sector through loans to marketing cooperatives the evaluation will test the assumption that a stable market will increase farm investment, thereby increasing productivity and lowering costs. The banking and financial entities providing credit to the cooperative member farmers will be interviewed and, if possible, statistical evidence will be collected to measure the initial impact of the entry into the local economy by the marketing cooperative.

The Private Sector Shelter Development 525-HG-013 project promises to introduce a major change in the Panamanian capital markets and offers the opportunity to the private sector to become the driving force behind the construction and financing of housing affordable below median-income levels. This will be accomplished through the establishment of a 25 million dollar trust fund which will co-finance home mortgage, from participating private banks. The first formative evaluation will focus primarily on the institutional mechanism and its efficiency. From the sectoral point of view the evaluation will examine the portfolio of the participating banks and of the domestic banking sector as a whole to try to define what initial effects the program is having on the capital markets.

The final evaluation within the finance grouping is the Natural Resources Reforestation fund which is part of the Natural Resources Management Project. This project component will also use a trust mechanism as the vehicle for wholesaling term money to participating banks in the cofinancing of private agroforestry projects. Since planting trees for profit will be a new business in Panama, the first evaluation will look closely at the existing

loan portfolio and test project design assumptions relative to costs, growth rates and feasibility. An important financial sector issue at this time will be the possibilities of the fund becoming self sustaining through the marketing of its own collateralized debt. This will be done through an analysis of the collateral structure and the credibility of tree plantation projects among the institutional investors in Panama.

2. Policy Development

The Mission is sponsoring economic policy studies through two projects that will be evaluated during the FY 87-88 time frame: Development Policy Studies, which is being implemented by the Ministry of Planning and Economic Policy (MIPPE), and the Agricultural Policy Formulation and Management Project, which is being implemented by the Ministry of Agricultural Development (MIDA). Unlike previous efforts, the main thrust of these projects is aimed at developing specific sub-sectoral policy reforms designed to reverse recessive investment trends by attracting private resources into new areas of economic opportunity.

If enacted, many of the policy measures currently under review would shift the leadership of the economy to the private sector. Among the measures are deregulation, elimination of subsidies, and the sale of public assets, and the elimination of duplications of functions within the GOP. Several of the GOP counterpart institutions executing USAID-supported projects will be affected by major changes in their operating and political environments because of this new policy direction and tight budgets. As government policy reforms are initiated, our evaluation program will provide a mechanism through which USAID supported projects can be adjusted in order to be consistent with new institutional structures and policy directions that evolve.

3. Technology Transfer

The first formative evaluation of the Natural Resources Management project will be performed 18 months after meeting the conditions precedent to disbursement. Since the first phase of the project is designed to support RENARE's adjustment to autonomy, the evaluation will focus on USAID/Panama and RENARE efficiency in getting both the institution and the project elements integrated and operational. The evaluation will rigorously examine the performance of financial and administrative actions with the dual purpose of assessing the procedural structure for the project compatible to RENARE and USAID/Panama mores, and defining an internal functional framework for all of RENARE to build upon during the life of the project. This diagnostic approach will also enable management to identify problems and take immediate remedial action.

The second formative evaluation, to be carried out during the fifth year of the project will be a broad scope study that will include an analysis of whether the basic concepts of Natural Resource Management are being absorbed by the public, RENARE, and other state institutions that influence the physical environment. At the project implementation level, the study will examine the specific technologies programmed for or under field application, test the programs technical design and conduct research to ascertain the practicality and acceptance of the technology in the field.

As early as 1983 the Panamanian economy began disentangling itself from the constrictive web of a state-controlled agricultural sector policy. Market productivity gains have been made in certain crops and some prices have settled into ranges set by the market. The Panama City market has demanded and is receiving better quality and a wider variety of fresh produce, dairy and meat products. As competition sharpens in the marketplace, farmers, processors and distributors seek the practical technology they need to lower costs and improve quality. USAID seeks to support farmers through a dynamic program that will field-test and transfer technologies in high potential crops and livestock for both the domestic and export markets.

Taken together, the Agricultural Technology Development and Agricultural Technology Transfer projects are central to implementing this strategy. However, the projects were designed as independent efforts and are implemented by two distinct divisions of MIDA and by different project managers in USAID/Panama. In late 1986, evaluations of these projects will examine this important linkage and other basic issues.

4. International Training and Scholarships

USAID Panama has two active projects in the field of training and education: the Central American Peace Scholarships (CAPS) project 597-0001, and the Private Sector Scholarships (COSPAE) OPG 525-0258.

There are three major evaluations scheduled during the life of the CAPS Project, and it is expected that there will be special narrow focus studies in response to senior management requirements, as part of the project monitoring process. The first formative evaluation of the CAPS project has been rescheduled to the fourth quarter of 1987 to allow the project to be evaluated after the end of the U.S. academic year. This evaluation will have three objectives: 1) an analysis of the implementation of the policy guidelines, 2) a systematic and formal examination of the administration of the project and 3) a review of the English language and remedial training program.

The policy implementation section will first compare progress to date against targets and then scrutinize the selection process, looking for ways to improve the identification and recruitment of students and trainees. The publicity program will be assessed qualitatively and quantitatively. The evaluation team will review the performance of civic outreach groups, screening committees, and other organizations involved in the recruitment process. The definition, dissemination and adherence to criteria will be carefully reviewed against the 1st year implementation plan.

The administrative section will deal with the "systems" side of the implementation process. The evaluation team will examine the structure of project administration and carry out a general review of the administrative process. Special attention will be given to the data base and to management information flows, and administrative costs.

The English language and remedial training programs are planned for one institution in Panama. The evaluation will emphasize measurement of the quality of that academic training through the review of TOEFL, ALIGU, SAT and other standard test scores, and interviews with students and teachers. It will also analyze program costs and administration and cultural orientation.

The Private Sector Scholarship OPG will end on March 31, 1988. There are two evaluations scheduled during the life of the project. The FY 1986 evaluation will, in addition to the normal testing of project performance against design, review the progress made towards the goal of financial and operational self-sufficiency. One very important component of that study will examine the possibility of phasing-over some of the administrative activities currently being carried out by the contractor managing the U.S. training. The second evaluation is planned for completion four months before the PACD and will analyze COSPAE's level of success in absorbing additional responsibilities, assess program costs, measure impact, and provide recommendations to the COSPAE Board of Directors and USAID/Panama regarding future program activities.

GRAY AMENDMENT

In accordance with the requirements of the Gray Amendment, USAID/Panama will seek to identify and offer contracting opportunities to economically and socially disadvantaged enterprises, historically Black colleges and universities, and private and voluntary organizations which are controlled by individuals who are Black Americans, Hispanic Americans or Native Americans, or who are economically and socially disadvantaged, including women. The Mission's project design process includes, as a required section of each PID, a basic procurement plan for goods and services which will be needed from the project design stage through the life of the Project. For all PPs, the Mission includes a section which provides details on the procurements needed for the project. The PP procurement plan will list: a disaggregation of contracts by type (goods or services), estimated contract amount, estimated dates of contracting, and type of contract envisioned (AID-direct or host country). The final part of the procurement plan consists of a presentation of the efforts made to identify and contract with individuals and organizations covered by the Gray Amendment.

The table below indicates that the Mission surpassed the 10% Gray Amendment goal for FY 85 and expects to do likewise this FY.

USAID/PANAMA
STATUS OF GRAY AMENDMENT COMPLIANCE

FY	DA Net Oblig.* (000)	USAID Direct ^{1/} Contract (000)	Pragma ^{2/} (000)	STC ^{2/} (000)	Indiv ^{3/} (000)	Gray ^{4/} Amend. Total (000)	G.A. as % of D.A.	G.A. as % of USAID Direct Contracts
1985	17,800	6,000	1,500	491	215	2,206	12.4	33.8
1986 ^{1/}	16,700	5,000	700	1,000	145	1,845	11.0	36.9

* Does not include CAPS.

^{1/} Estimates

^{2/} SBA 8A Firm

^{3/} Purchase Orders and PSC with Hispanics, Blacks and Women

^{4/} Gray Amendment: G.A.

The Mission expects to continue to meet the Gray Amendment goals during the Action Plan implementation period by utilizing the "sole sourcing" technique for selecting qualified 8 (A) contracting firms; by encouraging prime contractors to provide subcontracting opportunities for advancing Gray Amendment concerns; and by including New Directive (CIB 85-21) language in the Commerce Business Daily notice and solicitation documents for mission contracts awarded under open competition procedures.

The CAPS T.A. RFP is a good specific example of the Mission's initiatives towards meeting Gray Amendment goals. The RFP requires that the contract award be based, in part, on the ability of the prime contractor to subcontract to Gray Amendment eligible firms. In addition, the RFP requires that at least 10% of CAPS participants be placed in HBCU or with minority firms or institutions providing desired services.