

PD-ABB-303

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

PANAMA

PROJECT PAPER

IMMEDIATE RECOVERY PROJECT

AID/LAC/P-520

Project Number: 525-0302

UNCLASSIFIED

PD-ABB-803
151 68375

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET		1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number 	DOCUMENT CODE 3
2. COUNTRY/ENTITY PANAMA		3. PROJECT NUMBER 525-0302		
4. BUREAU/OFFICE LAC <input type="checkbox"/> 05 <input type="checkbox"/>		5. PROJECT TITLE (maximum 40 characters) <input type="checkbox"/> IMMEDIATE RECOVERY PROJECT <input type="checkbox"/>		
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 08 07 90		7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 90 <input type="checkbox"/> B. Quarter <input type="checkbox"/> 2 <input type="checkbox"/> C. Final FY <input type="checkbox"/> 90 <input type="checkbox"/>		

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 90			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
AID Appropriated Total	25,125		25,125	25,125		25,125
(Grant)	(25,125)		(25,125)	(25,125)		(25,125)
(Loan)						
Other 1.						
U S 2.						
Host Country						
Other Donor(s)						
TOTALS	25,125		25,125	25,125		25,125

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATION TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1 Grant	2 Loan	1 Grant	2 Loan	1 Grant	2 Loan	1 Grant	2 Loan
(1) ESF	940					25,125		25,125	
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To provide emergency humanitarian and economic assistance to aid in the immediate recovery from the effects of the Noriega years and the events associated with his ouster. The project will provide: 1) settlement of displaced persons from Chorrillo, 2) emergency employment, and 3) technical assistance and commodity procurement for GOP agencies.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local 935 Other (specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ___ page PP Amendment.)

17. APPROVED BY

Signature: *Frederick W. Schick*

Title: DEPUTY ASSISTANT ADMINISTRATOR, LAC

Date Signed: MM DD YY 03 02 90

18. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS. DATE OF DISTRIBUTION

MM DD YY

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

PROJECT AUTHORIZATION

Name of Country : Panama
Name of Project : Immediate Recovery Project
Number of Project : 525-0302

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Immediate Recovery Project for Panama (the "Cooperating Country") involving planned obligations of not to exceed Twenty Five Million One Hundred Twenty Five Thousand United States Dollars (\$25,125,000) in grant funds ("Grant"), subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the project is one hundred fifty (150) days from the date of initial obligation.

2. The project will provide emergency humanitarian and economic assistance to aid in the immediate recovery from the effects of the Noriega years and the events associated with his ouster. The project will include the following three components: 1) settlement of displaced persons from Chorrillo, 2) emergency employment, and 3) technical assistance and commodity procurement for Government of Panama agencies.

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

4. a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the cooperating country or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the cooperating country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the U.S. or Panama.

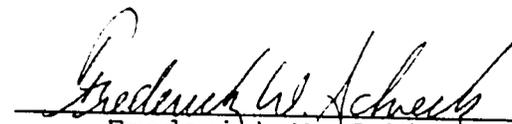
b. Waivers

The following waivers to A.I.D. regulations are hereby approved:

(1) A blanket source and origin waiver to Geographic Code 935 of not to exceed \$5 million for goods and services, based on the attached justification. This waiver includes motor vehicles, up to \$50,000 per transaction (exclusive of transportation costs), and I certify that special circumstances exist to waive the requirements of Section 636(i) of the FAA.

(2) A waiver of the advertisement requirements for host country contracts for equipment and materials or services, pursuant to A.I.D. Handbook 11, Chapter 1, Section 2.5.3 and Chapter 3, Section 2.3.2, to avoid serious delay in project implementation, provided that efforts will be made to secure bids or offers from a reasonable number of potential suppliers.

(3) A waiver of the requirement in Section 4B1(e) of Handbook 13 that private voluntary organizations (PVO's) receiving A.I.D. grants contribute twenty-five percent (25%) of the costs of the project from non-federal sources.



Frederick W. Schieck
Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

March 2, 1990
Date

Clearance:

AAA/PPC/PDPR:KBlakeslee	Draft	Date	3/1/90
LAC/DR:JEvans	<u>CVE</u>	Date	<u>2/2</u>
LAC/DR:TBrown	<u>TB</u>	Date	<u>2/10</u>
LAC/CEN:CCostello	<u>for JEP</u>	Date	<u>3/1/90</u>
LAC/DP:BSchouten	<u>3/1/90 BS</u>	Date	<u>3/1/90</u>
GC/LAC:TGeiger	<u>TTJ</u>	Date	<u>2/25/90</u>
SA/LAC:MKeenan-Wood	<u>MKW</u>	Date	<u>3/1</u>
PPC/PD:TBarker	Draft	Date	2/23/90
PRE/H:PKimm	Draft	Date	2/23/90
LAC/DI:NParker	Draft	Date	2/23/90
LAC/CONT:CAAdams	<u>C</u>	Date	<u>3/1/90</u>

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PANAMA ECONOMIC RECOVERY PROGRAM

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I. THE ECONOMIC SETTING, PRIOR TO THE CRISIS

A. Overall Output Trends

In the period 1965-73, the GDP of Panama grew at an annual rate of 7.5%. The leading sectors were services tied to buoyant Canal-related activities; and manufacturing for the domestic market which grew rapidly behind high protection barriers, mostly quantitative restrictions on imports. Growth of the GDP declined to an annual rate of 4.5% in the period 1973-80. The world recession which began in 1974 affected Panama's service exports negatively, while domestic activities were constrained by a deterioration of the investment climate which resulted from increased regulation of the economy, including a highly restrictive labor code as well as price and rent controls. The leading growth sectors were international banking and the public sector. The increase in public spending was financed by foreign borrowing and therefore the external public debt increased from 31% of GDP in 1973 to 64% in 1980. The increased role of the state also can be illustrated by employment trends. Over 70% of all jobs created in the 1970s were in the public sector; this was an important factor in maintaining the unemployment rate reasonably low. Unemployment was kept low also by an increase in school participation rates.

By late 1982 the impact of the economic crisis in Latin America began to affect the fast growing sectors of the economy. The Colon Free Zone, tourism, and international banking declined, while access to international capital markets was severely curtailed. The GDP fell in the period 1983-84, but economic activity rebounded somewhat in 1985-1986. Value added by the transisthmian pipeline made a significant contribution to growth during the 1980s and now accounts for about 4% of the GDP. Of course, some of that increase resulted in a reduction in Canal traffic, thus reducing value added by Canal-related activities.

During the 1970s and early 1980s there was a marked reduction in the overall efficiency of the Panamanian economy. The incremental capital-output ratio (the number of units of investment required to increase output by one unit) increased from 4.5 in 1965-73 to 6.0 in 1973-80 and to 9.2 1980-85. A study of the sources of growth in Panama financed by A.I.D. (estimated a production function for the economy and) concluded that the decline in efficiency during the 1970s was the equivalent of over 35% of GDP.

There are several possible explanations for this decline in efficiency, and it is important to understand them as they may shed some light on the critical issues of medium- and long-term economic reactivation in Panama. The decline in efficiency may be related to: a) a fall in the demand for Panamanian service exports as the world economy stagnated; b) excessive regulation, particularly of labor markets, reduced the efficiency of the private sector; c) numerous large-scale investment projects in the public sector which had very low internal rates of return; and d) although more difficult to prove, diminishing returns to Panama's main "asset", i.e. its geographic location.

Today services account for more than 70% of GDP, while agriculture and manufacturing account for less than 10% each.

B. Public Sector Finances

Given Panama's dollar-based monetary system, the key and almost sole relevant indicator of macro-economic stability is the overall deficit of the consolidated public sector. This deficit reached 10.8% of GDP in 1982 as expenditures were increased rapidly to compensate for declining private sector activity. From 1983 to 1986 Panama was reasonably successful in maintaining fiscal austerity under a series of programs supported by the IMF. Current revenue of the public sector increased steadily from 23% of GDP in the period 1971-75 to 32% in 1986, a relatively large burden for a country of Panama's per capita GDP. Current spending increased rapidly and reached 29% of GDP in 1986. The most troublesome aspect of this is the sharp increase in payroll expenditures--they reached a level of about \$800 million by 1986. Public sector employment in Panama is about 144,000, a very high level in comparison with other countries in Latin America, and about 22% of total employment.

C. The Financial System

Panama does not have a central bank. The unit of account is the Balboa but the U.S. dollar is the medium of exchange. In fact, the Panamanian constitution forbids the emission of fiat currency. As a result of this and of an attractive regulatory environment established by the Banking Law of 1970, Panama emerged as a major offshore banking center in the 1970s.

Some of the typical operations of a central bank have been carried out by the Banco Nacional de Panamá, a state-owned commercial bank. The BNP handles currency issue through transfers to and from the United States, it acts as the fiscal agent for the public sector, and holds the legally required minimum reserves of the other banks. The National Banking Commission has supervisory functions and is responsible for bank inspection and licensing. A relatively weak institution, it was not able to detect serious problems in two banks that failed in the mid 1980s. As there is no deposit insurance in Panama, the depositors were the losers.

Offshore operations of the banks were a source of employment and contributed to the finance of domestic loans. Beginning in 1982, offshore banking activity began to decline for two basic reasons. First, sovereign lending to Latin America, a key activity of the offshore banking center, declined sharply after 1982. Additionally, the establishment of offshore banking centers in the United States reduced Panama's competitive edge vis a vis the United States.

There are two government-owned banks: the Banco Nacional de Panama (BNP) and the Caja de Ahorros. (There are also two stated-owned financial institutions, the Banco Hipotecario Nacional, and the Banco de Desarrollo Agropecuario). The BNP accounts for close to 10% of total domestic monetary liabilities. It has been a main lender to the public sector, mostly by intermediating IMF and San Jose oil agreement funds.

Unfortunately, it has also funded the public sector using its own resources. The Caja de Ahorros, a savings bank, is the other financial institution. Its branches are widely distributed. It has about \$300 million in liabilities, mostly time and savings deposits, and about 480,000 depositors. It is the principal institution serving low-income depositors, and a source of housing finance for middle income families.

The private Panamanian banks grew rapidly in the 1980s, and now offer some of the services formerly provided by some of the large foreign banks.

D. The Balance of Payments

The use of the US dollar as the currency means that Panama does not have a "transfer problem", does not really hold foreign exchange reserves and does not face a short term balance of payments constraint. Of course, it faces the same restriction as any other economic unit or country — i.e., the relation between income and absorption must be sustainable in the long run.

Panamanian exports consist mostly of services. Non-factor services account for more than three-fourths of total exports of goods and non-factor services. These service exports are a function of the geographic position (Canal, oil pipeline, Colon Free Zone, and travel), and of favorable legislation (offshore banking, fees for incorporating corporations, and registry of vessels). A number of these service exports, such as the pipeline fees, reached their upper limits and therefore will not increase rapidly in the future. The level of some of these service exports depends directly on the use of the U.S. dollar as a currency, but it is difficult to speculate on the proportion that does.

E. The Policy Environment

The Latin American debt crisis which began in 1982 affected Panama in two very direct ways. First, service exports declined. Second, commercial banks became reluctant to provide net transfers to countries in Latin America, and therefore Panama lost its main source of public sector finance. A policy to stimulate non-traditional exports began to be formulated, and A.I.D. contributed to this process in the mid-1980s through the provision of technical assistance and through policy-based lending.

In the Panamanian context, where a devaluation is not possible, increased international competitiveness can only be achieved through measures designed to reduce the relative cost of labor and through increases in the efficiency of the different sectors. In 1983, a financial stabilization and structural adjustment program began, supported by the IMF, the World Bank and A.I.D. It included, *inter alia*, the following measures: a) allowing domestic agricultural prices to move closer to international prices; b) modifications in the labor code to increase flexibility; c) divestiture of state owned enterprises; d) elimination of most quantitative

restrictions on imports; e) elimination of price controls; f) reduction in the level and dispersion of tariffs; g) measures designed to reduce the actuarial deficit of the social security system; h) changes in the system of granting investment incentives on an ad hoc manner (Contratos con la Nacion); i) improvements in the system used to consolidate the accounts of the public sector; and j) continued fiscal austerity. Some of these measures were never implemented, while others were reversed after they had been implemented initially. The reform package was sweeping; however, the measures designed to improve public sector efficiency and accountability were not sufficient and were not pursued vigorously by the GOP.

II. THE ECONOMIC AND SOCIAL EFFECTS OF THE CRISIS (1988-90)

A. Output

After relatively slower economic growth in 1987, the GDP declined by 16% in 1988 and it stabilized in 1989. (These are official data. The Embassy Foreign Economic Trends Reports estimates the GDP decline at 20% in 1988 and at 7.5% in 1989). All economic sectors declined in 1988, but construction and manufacturing activity decreased much faster than other sectors. In 1989, agriculture grew at 4% while all other major economic sectors continued to decline.

B. Employment

Official data indicate an unemployment rate of about 16% nationally and an urban unemployment rate of 20% in 1989. The new government estimates that those official statistics under-estimated the unemployment rate, and that by December 1989 the national unemployment rate was 20% and the urban unemployment rate was 25%. The looting which followed the U.S. intervention and the disruption of economic activity may have increased the unemployment rate in the Panama-Colon area to at least 30%, and this constitutes the most important problem being faced by the new government.

C. Economic Losses in the Period Immediately After the U.S. Intervention.

The military operations and the looting and arson which followed the U.S. military intervention have resulted in important economic losses. The GOP has estimated these losses at between \$700 to \$1,200 million for the destruction of private sector businesses and the loss of inventory; and \$35 million in losses because of the destruction of public buildings and loss of equipment. These estimates were prepared by the GOP seem quite high, particularly the estimate of private sector losses. It is probable that private sector economic losses are significantly less than \$700 million. A problem with these losses is that insurance companies may not accept claims by alleging that the destruction and looting was the result of an act of war. This issue is still under discussion.

D. Public Sector Finances

Public sector finances have been under tremendous strain since 1988 as a result of political instability, the decline in economic activity, and the economic sanctions imposed by the U.S. For example, Central Government Revenue declined by \$473 million in 1988, equivalent to a 44% decline, and there was an additional decline of \$16 million in 1989. The annual decline in revenue which resulted directly from the U.S. sanctions was about \$185 million per year.

Public sector expenditures declined, basically as a result of a sharp drop in capital expenditures. Capital expenditures, which averaged \$233 million in the period 1985-87 declined to \$81 million in 1988 and to \$78 million in 1989. As a result, important road links, the power sector, and other essential infrastructure have deteriorated significantly.

E. The Banking Crisis

The political situation deteriorated significantly in 1987 and the loss of confidence resulted in capital flight and in a reduction of economic activity, and this was accompanied by a sharp decline in public sector external borrowing. The GOP financed the public sector deficit by borrowing from the Banco Nacional de Panama (BNP) and through the accumulation of external payment arrears. By early 1988 the liquidity position of the banking system was under strain: a combination of the loss of liquidity of BNP and the loss of about \$500 million of private domestic deposits from the commercial banks.

A banking crisis in Panama was imminent in early 1988 but it was precipitated by the freezing of BNP's assets in New York in March 1988. The run on the banks which ensued forced the GOP to declare a bank holiday which lasted for nine weeks. Commercial banks reopened in May 1988 with restrictions on the withdrawal of previously held deposits. Restrictions on demand deposits were eventually relaxed totally, but restrictions on the withdrawal of savings and time deposits remain. As of September 1989 about 85% of total time and savings deposits remained frozen. Presently, frozen deposits can be used to pay loans to the commercial banks holding such deposits, to make tax and utility payments, and to purchase special certificates of deposit with a minimum maturity of three years (CEDIS). The CEDIS are issued at the request of a depositor holding a frozen deposit and they are traded in a secondary market at a discount which ranges between 15-30% depending on maturity.

The freezing of BNP's assets in the U.S. led to the freezing of its deposit liabilities with other domestic banks, and to the interruption of the interbank clearing mechanism. Bank clearings have been conducted on a bilateral basis since the onset of the banking crisis, an inefficient and time consuming mechanism.

At this time the banking system is operating inefficiently and at a low level of activity. In recent months the amount of loans granted was approximately 50% of the average of end of 1986 and the first half of 1987. The reactivation of the Panamanian economy will not take place unless the financial system can mobilize financial resources to meet working capital as well as longer term investment funds. The lack of finance has become more acute with an urgent need to rebuild inventories which were lost following the U.S. intervention.

F. The Housing Situation

The information we have about the housing sector in Panama at this time is that there has been a drop by over 50% over 1987 levels in employment in construction representing a loss of 20,000 jobs. Construction is on hold for over 9,000 units costing under \$16,000 (we did not look at higher-cost housing; but, the situation must be similar). Banks have pulled out of their commitments to provide long-term, take-out financing for housing projects and are disbursing very slowly on the few which they had to honor.

There has also been a drop in the demand for housing at all price levels, a deterioration in public services necessary for housing projects (water, electricity) and a partial breakdown of the production and distribution of construction materials.

III. THE IMMEDIATE RECOVERY PROGRAM

A. Emergency Relief

Problem - Displaced persons:

OFDA was alerted on 20 December to the need for humanitarian assistance to Panamanians displaced from their homes due to the conflict. The Ambassador exercised his prerogative and declared a state of emergency. The 96th Civil Affairs Battalion of the U.S. Army assumed responsibility for the displaced, and set up an emergency facility at the Balboa High School.

Immediate Action taken by OFDA to resolve the problem

Two OFDA Disaster Specialists were sent from USAID/San José on 29 December to assist USAID with the post-emergency relief effort and conducted an evaluation. OFDA Director Andrew Matsios accompanied the high-level U.S. team to Panama the first week in January. During his visit he approved a grant for \$250,000 to be made to the Panama Chamber of Commerce to provide food and medical supplies.

After the assessment and subsequent discussions between USAID, OFDA and the Military it was agreed that OFDA would take over the responsibility for the displaced persons then under the care of the Military.

The U.S. Army Corps of Engineers cleaned an old hangar at Albrook Field, constructed the sanitary facilities, and prepared the hangar to be used as a temporary shelter for the approximately 2,500 displaced persons.

OFDA agreed to construct internal divisions at the Albrook Hangar to house the displaced persons for a period of 90 days. This would provide better facilities and more privacy to the family units.

Agreements were reached with the Military for the transfer to take place January 13.

OFDA also agreed to provide \$300,000 to the U.S. Corps of Engineers for part of the cost of the rubble removal and cleanup of the Chorrillo area.

Plans for remainder of the relief actions

OFDA has agreed to assume the responsibility for the cost of the administration and management of the shelter, and this will be handled through a grant of US\$250,000 to the Panama Chamber of Commerce. The on-site control of the shelter is the responsibility of the Panamanian Red Cross under the supervision of the wife of the first Vice-President of the Republic of Panama, Mrs. Teresa Arias Calderon.

Medical care for the displaced is the responsibility of the Ministry of Health and the Social Security Institute through a Medical Post located in the same area.

Long Term solution

The Albrook Displaced Center is a short-term, temporary measure provided on a humanitarian basis. Initial plans are for this center to operate no longer than 90 days.

The long-term solution for the return of the displaced persons back into the community and normality is beyond the mandate of OFDA. However, if a permanent solution has not been arranged prior to the end of the 90 days, OFDA can assist in additional financing to ensure the operation of the center for an additional period of time until a permanent solution has been found for all of the displaced.

Cost Summary

Up to 12 January 1990, OFDA had committed the following amount for the immediate post-Emergency Relief:

1. Ambassador's declaration (food and medical supplies-	\$ 25,000
2. Construction of temporary living quarters	50,000
3. Costs of Displaced Persons Center for first 90 days	250,000
4. Rubble removal and cleanup of El Chorrillo	300,000
5. 3,000 folding cots	126,000
6. 100 rolls of plastic sheeting for shelter	30,000
7. Transportation for cots	100,000
TOTAL.....	<u>881,000</u>

B. The First 150 Days

Introduction

The Endara government has established the framework for its plans to reform national economic policies along market based lines, reducing the size and improving the efficiency of the public sector. Their task is monumental. While they proceed, they have identified high priority urgent recovery needs which must begin now. The provision of housing to the people whose homes were destroyed in El Chorrillo, emergency employment programs and assistance to productive sectors top the list -- along with reactivating the banking system.

The activities presented below as the AID Immediate Recovery Program (IRP) respond to the GOP's priorities during this first 150-day emergency phase. The IRP includes sub-projects to: a) house the people displaced from Chorrillo, b) an emergency employment program to repair deteriorated public works, c) a technical assistance and commodity support fund to provide assistance to the new government in its efforts to restructure the public sector, and d) emergency small business lending program to help small businesses looted and vandalized by the "Dignity Battalions" during the first days after the U.S. intervention to restore inventories.

Another activity which must be addressed urgently is the restructuring and reactivation of the banking system, but this is beyond the scope of A.I.D. The GOP has requested assistance from the IMF, the World Bank and the U.S. Treasury. Without this assistance, the economic recovery will be nearly impossible.

Because of the emergency nature of the Immediate Recovery Program (\$30 million grant) it should be funded under OFDA authorities, therefore,

the Administrator is requested to approve a waiver of standard procurement rules and regulations provided in Handbooks 1B, 8, 11, 14 and 15 for all contracting, and a waiver of standard grant provisions in Handbook 3 and 13 for bilateral and non-governmental grants as necessary.

This package of emergency assistance to the fledgling Government of Panama also depends, if it is to succeed, on exceptional actions to promptly assign A.I.D. TDY personnel to Panama for an estimated four to five months to manage the program. Personnel should be in place throughout this emergency program to the point of a smooth hand off to permanent USDH staff of the new A.I.D. Mission.

Summary Emergency Recovery Program Cost
(by sub-project)

<u>Sub-Project</u>	Sub-project Cost (\$000)
1. Chorrillo displaced persons housing (HG-012)	12,500 (3,500)* ←
2. Emergency Employment	7,000
3. T.A. and commodities support	5,500
4. Small Business Lending	5,000
Total	<u>\$30,000</u>

* Non-add

1. Housing Subproject

a. Problem

Destruction of Chorrillo

At midnight on December 20, U.S. troops attacked the "Comandancia", headquarters of General Noriega and the Panama Defense Forces. Residents of Chorrillo, a neighborhood contiguous to the PDF Headquarters, were moved by U.S. forces and fled their houses for the local church. Fighting continued all night. In the early morning of December 21, many buildings in Chorrillo caught fire, including the remaining wooden structures put up originally to house the workers who built the Panama Canal just after 1900. These structures had been condemned for years but still served as home for hundreds of families. There are conflicting versions about the origin of the fires, including one provided by many of the residents themselves blaming the "Dignity Battalions". Other buildings did not catch fire but had to be evacuated by the residents during the fighting. About one half of the Chorrillo district still stands.

Immediate response

In mid-morning, the 96th Civil Affairs Battalion (U.S. Army) began moving the families to emergency facilities, where nearly 12,000 persons were received. Very few of these people remain in the emergency facilities. On January 12, 2,500 persons were moved from Balboa High School (D.O.D.), where classes were scheduled to resume, to a displaced persons center in a hanger at Albrook Air Station. The center currently is budgeted to remain open for 90 days. All of the remaining persons displaced from the Chorrillo district have found temporary shelter on their own. The site itself is being cleared by private contractors under the supervision of the U.S. Corps of Engineers, with funding provided by OFDA and by the U.S. military. They are expected to finish their task by the end of January.

Remaining needs/GOP request for assistance

The destruction of Chorrillo left about 2,000 families homeless. An additional 500 families were displaced from two low-cost apartment buildings, damaged by the fire and rendered uninhabitable by the pillaging which took place in the days following the attack on the PDF Headquarters. The actual number of affected families is not known precisely. The Ministry of Housing has tables showing a larger number, about 2750 families based on data available before the destruction. Smaller numbers have been used in discussions with GOP officials. For planning purposes, we are using an estimate of 2,500 until a firm, agreed figure is arrived at. With the immediate emergency under control, the major remaining task is to address the housing needs of the displaced families.

The GOP will also need to address the issue of the reconstruction of the now-vacant area where the PDF Headquarters and the

housing destroyed by fire once stood. This issue is emotionally charged and highly political. President Endara has made public statements about the "rebirth of Panama from the ashes of Chorrillo". According to the media, the reconstruction of Chorrillo has received strong public support from General Thurman, Commander in Chief of the U.S. Southern Command. Both President Endara and General Thurman implied Chorrillo would be rebuilt as a housing project for the displaced residents.

The U.S. Government has been asked by the Endara government in a letter to President Bush dated January 8 to provide a donation of \$40 million to fund the construction of infrastructure and housing for 2500 families from Chorrillo. The request combines the solution of the two problems -- reconstruction of Chorrillo and the housing for displaced families -- into one project. We have been engaged in a dialogue with the GOP encouraging that alternatives be considered. At a January 13 meeting of the top leadership of the GOP with the Catholic Archbishop of Panama among others, the President reversed his earlier stand and endorsed the notion that the people of Chorrillo should be given the freedom to choose for themselves where they want to live and that whatever assistance they receive should be consistent with this principle. We are proceeding to work with the GOP on the details of the free choice concept. Decisions on the use of the Chorrillo site remain to be taken.

b. Summary Project Description

Overall design and costs

This paper recommends that the U.S. Government provide immediate assistance to families whose homes were destroyed or damaged in Chorrillo in the context of the attack on PDF Headquarters and in the immediate aftermath. It is likely that the GOP will approach the USG at a later date for assistance in the development of the Chorrillo site once they reach their own conclusions on its use. Thus, we make no recommendations at this time as to additional funding for the reconstruction of Chorrillo itself. The assistance to the families will require:

- \$10 to \$15 million (depending on resolution of beneficiary numbers) which will:
 - provide a grant to families whose homes were destroyed, to help them buy or rent a new unit;
 - pay for the cost of repairing the apartments of families who were living in the buildings which were damaged; and
 - fund local PVOs assistance to the families who might be unable to address their own housing needs, such as the elderly.

- \$7.5 million HG to provide additional financing to buy or improve a unit for those families who are willing and able to complement the grant with a loan

The final cost of the assistance to displaced families will not be known until we have additional data on the number of displaced families and until the families themselves have exercised the choice to rent or buy and decide whether to request a loan to complement the grant. The request for grant funds is based on a preliminary GOP estimate of \$6,000 for the average grant per family, with some receiving more and others less. \$6,000 would pay for a core house on a small lot in Panama today. The HG financing would provide an average loan of \$3,000, which is well within the capacity of the group of families and which would allow many of them to enter the private housing market. The request for HG resources is not based on an estimate of demand. Rather, it should be understood as a request to use resources from Project 525-HG-012, up to the amount of \$7.5 million available in the existing escrow account of that project. Any remaining grant funds will be transferred to other sub-projects in this package. Use of the remaining HG funds will depend on a subsequent decision about the future of the other activities included in the original project for which these funds were authorized.

Operation of the program

The following precepts will apply to the grant given to the families:

-Each family will be free to decide for itself how it wants to resolve its housing needs. The grant will be available to buy or to rent a house anywhere in Panama, as long as it will become the habitual place of residence of the family. This will include families who are willing to wait for the reconstruction of Chorrillo. Others will want to find a solution in the formal or informal markets.

-All families who choose a particular option, say to rent, will get the same amount, regardless of family size or income.

-Families who either buy or rent within 90-120 days of the official announcement of the program will receive a small additional grant, as an incentive to stimulate them to act quickly.

-The following will be the procedures for control and disbursement of the grants:

- The family will receive the grant initially in an escrow account opened in its name in a banking institution, such as the Caja de Ahorros. The funds will belong to the family, which will have access to them only as described below.

- The funds will be disbursed to the family from the account only upon presentation of a valid rental or purchase contract, following a procedure much like a loan closing. The full amount of the grant will be disbursed, regardless of the cost of the unit. If applicable, the 120-day incentive bonus would be disbursed from a central program account at the same time. Upon receipt of the funds, the family will certify that its housing needs have been met.

- Eligible families who had already found a permanent place before the official announcement of the program will qualify for both the grant and the time incentive in the same amounts.

- Any additional loan, which the family wants and qualifies for, will be handled concurrently following existing commercial underwriting criteria.

*How with
a job
(permanent)*

Institutional Arrangements

The following are the key institutional roles in the implementation of the project:

- The GOP will develop the list of the displaced families who will be eligible to participate in the program. Local community and religious groups from Chorrillo as well as A.I.D. will monitor this process.

- The Ministry of Housing will bid and manage the contracts to repair the damaged low-cost apartment buildings.

- A local banking institution, will manage and control the disbursement of funds.

- The families themselves will have the primary role in identifying a viable solution to their housing needs, whether through the formal or informal private housing market.

- Private builders and property owners are expected to react to the demand, especially as enhanced by the grants, by developing affordable units in their ongoing projects for sale to displaced families and by offering apartments for rent.

- PVOs will work with the least able displaced families, advising them on suitable housing solutions and/or helping them to package tailor-made solutions, such as a home for the elderly. (Given the need to work quickly, registered PVOs will be given priority.)

Beneficiaries

The destruction and damage in Chorrillo affected a variety of housing types common in the area. Altogether 106 structures were destroyed or damaged. Five were churches. The rest provided housing for numerous families. The most prevalent by far were the wooden buildings initially constructed to house persons working on the construction of the Panama Canal. These structures had been condemned as much as twenty years ago. All of them were destroyed by the fires, as were all of the remaining structures which once were private homes and had become tenements when they were abandoned by the owners. Also destroyed were most of the one-story wooden barracks used as temporary housing for families relocated from other parts of Chorrillo as part of the ongoing urban renewal process in the area. The structures which were damaged and can be repaired are all low-cost apartments built by the government, including a fifteen-story building called "24 de diciembre", with 450 units.

The beneficiaries of the proposed program are the families and single persons displaced from these buildings, preliminarily estimated as follows:

Destroyed:	
Housing Type	Families
Condemned wooden structures	1,200
Temporary wooden barracks	315
Abandoned private homes	485
Sub-total	2,000
Damaged:	
"24 de diciembre"	450
Urban renewal building No. 17	50
Sub-total	500
Total Beneficiaries	2,500

There is an undetermined number of single persons who were living as transients in Chorrillo and renting one room. The Ministry of Housing has identified 157 persons who lived alone just in the condemned wooden structures. Their losses cannot be compared to those of the other residents of Chorrillo who lost their homes. Yet, these single persons are currently counted as "families" in the data available from the Ministry of Housing, which shows 2245 affected "families". Once the current detailed survey is completed and the figures are adjusted to reflect the single persons, the number of families whose homes were destroyed will be known more exactly. A.I.D. consultants have been contracted to provide an independent assessment.

c. Goal, Purpose, Expected Results

Goal/Purpose

The goal of this project is to address the housing needs of the families whose existing housing was destroyed or damaged in the

context of the attack by U.S. military forces on the PDF Headquarters in the Chorrillo district of Panama and by the pillaging of the area by Panamanians in the aftermath.

The purpose of this project is to complement and support the efforts of the displaced families to address their own housing needs by providing assistance to them directly and immediately.

Expected Results

Those families who choose to find a response to their housing needs in the existing formal or informal market, rather than waiting for a new apartment in Chorrillo, will be housed within 120 to 180 days. The incentive being offered to those who act quickly will contribute to this. Families who choose to wait for the reconstruction of Chorrillo will have to wait 12 to 18 months in the best of cases. These families will become a source of pressure on the government, particularly if the reconstruction is delayed. Satisfaction with the housing will be greater among those families who took the initiative to solve their own problems.

The demand for housing created by the efforts of the displaced families, as complemented by the grant and credit assistance, will lead to construction activity and generate an economic impact in terms of jobs and purchase of basic construction materials. One measure of the volume of construction and its impact might be:

<u>Component</u>	<u>Total</u>	<u>Construction</u>		<u>Expenditures</u>	
		<u>%</u>	<u>Value</u>	<u>Labor</u>	<u>Materials</u>
Repair	\$ 2,600	100	2,600	800	800
Purchase					
- Grant	6,000	50	3,000	900	900
- Credit	3,500	70	2,400	700	700
Total	<u>\$12,100</u>	<u>n/c</u>	<u>8,000</u>	<u>2,400</u>	<u>2,400</u>

(Person-days 120,000)

d. Rationale/Issues/Alternatives Considered

Rationale

Although the proposal to rebuild Chorrillo has great symbolic merit, we do not believe it represents the best response to the needs of the families displaced from that district. We do not believe that a massive low-cost housing project of the type which has been proposed would provide the most effective symbol of the new Panama. The situation facing the displaced families from Chorrillo is similar to that of families whose homes have been damaged or destroyed by a natural disaster. Experience in

dealing with post-disaster housing needs would argue against depending on a single large new-housing project. Even under the most efficient management, such projects take years to complete and become largely irrelevant to those left homeless by the disaster. Instead, the majority of the families resolve their own problems without assistance of any kind, since all available funds are committed to the large housing project. Conversely, the few who wait out the completion of the project end up receiving even deeper subsidies than originally planned because the final cost of the housing units exceeds the initial budget. Such an approach has the wrong incentives, since those who display the greatest initiative receive little if anything at all.

The proposed approach is designed to encourage individual initiative on the assumption that the affected families will expend great energy in finding a response to their own housing needs. The fact that 80% of the families have left the emergency shelter without any prompting to do so and are living elsewhere would tend to confirm the assumption. The approach is also designed to provide the benefits directly to the affected families so that whatever else happens they at least receive assistance as intended.

Issues/Alternatives

U.S. assistance for the reconstruction of Chorrillo: This paper does not address the issue of possible additional funding for the reconstruction of Chorrillo. Preliminary surveys of the site by U.S. military engineers have surfaced concerns about the 90-year old water and sewer systems and unstable soils of the area. Time and care should be taken to consider alternative uses for the site and to conduct preliminary engineering studies as the basis for a sound development plan and budget. It did not seem appropriate to try to rush these decisions so that they could be included in this paper.

Alternatives to proposed approach: Two possible responses have been discussed to the housing needs of the displaced families of Chorrillo. The one recommended in this paper would rely on the individual initiative of the families to find their own new housing, with support if necessary from a PVO. The other would provide a house to the family in a reconstructed Chorrillo. The remaining alternative would be to try to combine the two by developing a self-help project for all of the families on one or more sites other than Chorrillo. Actually, this could occur under the proposed program, since the Ministry of Housing is willing to offer access to the families to ongoing sites and service projects. The key difference is that as proposed in this paper the family would retain control of the assistance and would be free to choose some other option.

Rule-making: How complicated should the rules be? The proposed program would keep rules as simple as possible. Everyone will be

treated equally regardless of family size or income, with very few exceptions:

The grant amount will be different for those who buy, rent or repair a damaged unit.

Young, single persons who were transients in Chorrillo and did not constitute a "family" will receive a onetime grant of a lesser amount, whatever they choose to do about their housing needs.

Loan amounts will be based on capacity to pay.

Keeping the rules simple will limit the bureaucracy required to run the program and should expedite implementation. It will also minimize the amount of time spent by the families trying to beat the system, rather than dealing with more important needs.

e. Feasibility Analyses

Technical

The market for new housing: The preliminary GOP suggestion circulating among the staff of the Ministries of Housing and of Public Works that the average level of the grant be set at \$6,000 is meant to ensure that the poorest quartile, who have little borrowing capacity, can at least afford a core house on a small plot of land. At the other end of the spectrum, this average grant places the more affluent upper half of the beneficiaries, who can afford a loan of \$2,500 or more, squarely in the market for new housing built by private developers, where prices range from \$8,500 on up. Information obtained from developers and from the Caja de Ahorros on units in this price range identified 200 to 300 available in the next 90 days and as many as 600 more available in 120 to 180 days. The Ministry of Housing may have as many as 600 lots available in ongoing sites and services programs. Taken together this formal sector supply could account for much more than half of the housing needs of the displaced Chorrillo families.

The options available through the informal sector could not be confirmed, but they are in evidence throughout the city. With the funds available the families will be able to buy a small lot in an area such as San Miguelito and pay for the construction of a small two-room house. They can also add rooms to the house of a family member. It is even possible that some families might leave the city of Panama and buy a property elsewhere in the country. The informal shelter sector will offer the most options, although it might also pose procedural problems for the families in presenting evidence in order to draw down the grant. This still needs to be worked out. The informal sector may also allow the family to find a place for less than the grant amount. This is a decision which should be respected. As proposed in this program, the families will get the full

amount of the grant regardless of the actual price they pay as long as they find a place that will become their habitual residence.

The rental market: Renting could be an important option for many families and it will be available in the proposed program. The Panamanian Association of Property Owners indicated that there could be as many as 300 apartments available for rent, at monthly prices of \$100 to \$200, which would be high for the incomes of the displaced families without the grant. The informal sector likely offers possibilities for lower rents. The grant will also help by allowing the families to prepay the rent and obtain a discount. Lack of lower rents, at least from the formal sector, reflects the negative effects of a rent control law approved in 1973. We are seeking to obtain the information on the informal rental market, where far lower rents should be available. It is reasonable to assume that the displaced families will either already know or come to know of such opportunities. (Annex A includes a preliminary report on the possible supply on new housing and rental units available through the formal private sector).

Administrative

Identifying the displaced families: The most critical administrative process in the proposed program will be the initial certification of the displaced families. The Ministry of Housing has been active in Chorrillo for more than twenty years, since this was the site of their major urban renewal effort. The Ministry has maintained information on the families living in the condemned building and in the barracks built as temporary housing for those being relocated. In addition, those who had moved into one of the low-cost apartment buildings developed by the Ministry are registered as borrowers in the records of the Mortgage Bank, the financial arm of the Ministry. Together, these account for 80% or more of the displaced families. Although the Ministry's data represents a good starting point, it will require verification against other sources.

It will be an even more complicated task to identify those who were living in one of the abandoned private homes or other structures in the area, where the residents were not paying officially to anyone. There are two parallel sources of information which will help in this process. The local Catholic parish has prepared a list of all who were residing in Chorrillo. In addition, the persons who came to the emergency shelter were registered by the Red Cross and U.S. military, using some form of identification number such as the "cedula". Taken together with the data from the Ministry of Housing, these two other lists should provide as accurate a certification as is possible in current circumstances. As indicated earlier, a consultant has been contracted to help assess the available data.

Financial Management: The procedures described in this paper for the control and disbursement of funds are very close to existing practice in the banking system in Panama. The concept of a blocked or

escrow account is used in the so-called "cuentas de navidad", which are very popular. Persons save a fixed amount weekly during the whole year and cannot withdraw funds at all, even in an emergency, until early December. The requirement that the families present a binding agreement to buy or rent a house in order to obtain the grant is exactly analogous to what occurs at a loan closing. Banks have established procedures for such occasions, including field inspections to verify the information contained presented by the proponent. The process will be especially easy in the case of a sale by the Ministry of Housing or a private developer or of a rental agreement with a private property owner. Transactions in the informal sector will require some imagination to come up with a practical form of agreement that is not too complicated for the families. The Caja de Ahorros has offered to assign lawyers from their staff to help in this process. In fact, all financial institutions contacted, including the mortgage banks, indicated that they had surplus capacity for the moment and would be able easily to handle the volume generated by this program.

Social

An element critical to assessment of the feasibility of the proposed project -- and to alternatives to the current concept -- is a general understanding of the background, perceived needs, preferences, perspectives and capabilities of its intended beneficiaries. The emergency situation has not yet permitted consultation with them. An AID consultant has been tasked to increase our understanding of these important matters and to examine through them some key assumptions underlying the project concept and its individual elements.

Anecdotal information obtained from the priests of the Fatima parish in Chorrillo, who have been consulted about the merits of the approach proposed in this paper, indicates that as high as 80 to 90% of the families would seek to find new housing outside the area if given the type of support available through the grant. In fact, the priests have become very strong proponents of the program, which they view as the best option available to their parishioners.

The consultants' efforts began on January 12. Substantive conclusions will be available before the end of the month. His interviews with the intended beneficiaries will include a sample of the roughly 25% of the affected families who reside in a large emergency shelter and some of the 75% who are at present dispersed in the city, living in temporary arrangements which they themselves devised.

The team did not try to negotiate a firm agreement with the GOP on the precise numbers for the grants to be given to each displaced family. The GOP and local religious groups, which have been active in Chorrillo, will develop a more precise assessment of the numbers and characteristics of the displaced families. The A.I.D. consultants have been asked to arrive at an independent opinion on the accuracy of the numbers. In addition, there should be a preliminary report available from the

consultant who is attempting to develop a better understanding of the needs, preferences and perspectives of the displaced families. This vital information on and understanding of the displaced families will provide the basis on which to negotiate a firm agreement with the GOP on the assistance to be provided.

f. Cost Estimates/Financial Plan

Component costs

Grants to families: The U.S. Corps of Engineers did an estimate for the cost of repairing the low-cost apartment building called "24 de diciembre". Replacing doors, frames, windows, wiring and fixtures will cost about \$2,500 per apartment. Repairing the elevators, common areas and replacing the main wiring will cost close to \$1,800 per unit pro rata. With A&E costs and contingencies the total will be around \$2.4 million, or close to \$5,200 per apartment. The cost for the other damaged building should be similar or lower.

In discussions so far with the Ministers of Public Works and of Housing and with their staff, they have been using \$6,000 and \$3,000 as the grant amounts for buyers and renters, respectively. They also have indicated that the additional grant for action within 120 days should be \$2,000, which is very high. An alternative could be \$5,000 as the basic grant, with a time bonus of \$1,000. Using these numbers and assuming that 75% of the families succeed in finding a place to live in 120 or less days, the overall cost of the grant side of the program would be:

<u>Component</u>	<u>Per Capita Cost</u>	<u>Families</u>	<u>Total Cost</u>
Repair	\$5,200	500	\$ 2,600,000
Purchase	5,000	1,200	6,000,000
Rent	3,000	800	2,400,000
Time incentive	1,000	(1,500)	1,500,000
Total	n/a	2,500	\$12,500,000

Credit: The Ministry of Housing has prepared the following income profile (which needs to be verified) of the displaced families by type of housing in which they were living.

<u>Type of Housing</u>	<u>Number of families</u>	<u>Monthly Income</u>
Barracks	315	\$ 140
Abandoned houses/other	485	\$ 170
Condemned wooden structures	1,200	\$ 270

A conservative estimate of demand for credit at 10% and 20 years might be:

<u>Type of Housing</u>	<u>Monthly Income</u>	<u>Payment</u>	<u>Loan</u>	<u>Demand</u>	<u>Total Credit</u>
Barracks	\$140	\$20	\$2,000	50	\$ 100,000
Abandoned Houses	\$170	\$25	\$2,500	150	375,000
Wdn stctrs	\$270	\$55	\$5,500	550	3,025,000
Total	n/a	n/a	n/a	700	\$3,500,000

In other words, the demand would require about half of the HG funds which are available in the escrow account of Project 525-HG-012.

Summary Financial Plan
(U.S.\$ 000s)

<u>Source Application</u>	<u>Grants to Families ^{1/}</u>	<u>Families</u>	<u>Credit to Total</u>
Grant Funds	\$12,500	-	\$12,500
HG	-	\$3,500	\$ 3,500
Total	\$12,500	\$3,500	\$16,000

g. Implementation Plan

Next Steps

<u>What</u>	<u>Who</u>	<u>When</u>
Prepare detailed procedures for implementation of program.	GOP task force MIPPE, MOP, MIVI, Caja de Ahorros.	By January 19
Survey of data and of preferences/ attitudes of families.	A.I.D. consultants	Initial results by January 19.

1/ The grants to PVOs will be small. Funding for such grants should be viewed as coming out of the overall funding provided to assist the displaced families.

<u>What</u>	<u>Who</u>	<u>When</u>
Review and approval of program, as modified if necessary.	AID/W	Week of January 16.
·Certification of list of displaced families (all but disputed cases, if any)	GOP with oversight of religious groups active in Chorrillo and/or A.I.D.	By January 26
Negotiate and sign AID/GOP agreement.	AID/MIPPE	By January 26
Start program	GOP	By January 29

Revised Design 525-HG-012

The proposed use of HG funds is consistent with the existing "Subprogram I - Urban Renewal" of Project 525-HG-012. In fact, Chorrillo itself was one of the main targets of that component. The proposal contained in this paper differs in the following aspect only:

- The proposed activity will help the families, and will not focus on rebuilding the site.
- Most families are expected to want to relocate and HG financing will assist them in buying units outside the renewal area.
- Procedurally, this proposal relies on banking institutions other than the Banco Hipotecario Nacional, which will not be involved in this activity at all.
- All families who are certified as being among those displaced from Chorrillo will be eligible for HG financing. The unit they purchase must remain within price limits that are affordable to below-median income families.

LAC is asked to concur in this modification to the design of Project 525-HG-012.] ✓

Staffing Implications/Requirements

A.I.D. will need to have a staff person available close to full time for at least the 30-45 days until it is clear that the concept is

working and that any unexpected problems with the implementation of the program has been overcome. Assuming no major issues remain beyond that point, A.I.D. oversight should become less than a full-time job. Should the old HG portfolio in Panama, which includes Projects 525-HG-012 and 013 with combined funding of \$32.5 million, be reactivated then it will be necessary to have a resident housing advisor. The person in that position could concentrate initially on the assistance to the displaced families from Chorrillo, then spend progressively more time on the HG projects.

Disbursement Procedures

The disbursement of grant funds will occur when the individual accounts are opened in the name of each certified displaced family. HG disbursements will follow procedures established in the existing Implementation Agreement.

2. Emergency Employment Subproject

Problem

Economic decline in Panama predates the 1984 elections. Since then, the economic situation has worsened steadily and in early 1988, following commercial isolation, economic decline gathered an ever accelerating pace. Recent events have aggravated the situation, leaving a wake of unemployed and underemployed to their own resources and ingenuity for survival. The employment situation is grave.

The population of Panama is roughly 2,300,000. Of that number, approximately 1,400,000 people fall into the economically-active age group. Current employment figures, which are outdated, suggest that the workforce in Panama is some 625,000 strong with about 500,000 actually employed and 125,000 not working. These figures put the unemployed at 20% of the workforce. The popular perception, however, is that unemployment is much higher than these figures portray, and there is little debate that recent military events, as welcome as they may have been, have exacerbated an already critical situation.

At the same time, the GOP faces serious deterioration of the basic infrastructure in both the urban and rural areas. At present, existing vital infrastructure is in such a deteriorated condition that immediate interventions are required to salvage it before it is rendered useless. Many such projects are nearing a state of risk which would prohibit public use. Should this occur, there would be a deepening of unemployment and a further downturn in the economic picture.

In urban areas, the major needs are the restoration of basic public services and road and street networks. Most preventative and periodic maintenance for this infrastructure has been deferred over the past several years. The reduced revenues gathered during recent years for this purpose were used for the massive public sector payroll or skimmed-off by a military shadow government and invested in military civic-action projects (Acción Cívica Militar). The latter were designed for political, not economic impact.

During this period, in which the military supplanted civil governmental functions in many critical areas, normal governmental capacities and private sector activity atrophied and fell respectively into disuse, near bankruptcy or collapse.

The newly elected government is only days old. For the most part, ministers of state are only at this time becoming familiar with their paralyzed portfolios and have not had opportunity to focus on medium and longer-term employment strategies and goals to increase national production, employment and income, and create socio-economic opportunities.

a. Summary sub-project description

Goal. The Sub-Project has three mutually supporting goals: 1) the generation of employment; 2) the reactivation of the moribund construction and associated industries; and 3) the repair, maintenance, rehabilitation or replacement of the nation's deteriorated economic infrastructure.

Purpose. The purpose of the Employment Sub-Project is to hire a portion of the idle workforce and put it to work on the repair, maintenance, rehabilitation or construction of meaningful and worthwhile infrastructure projects. The GOP recognizes that "work for work's sake" would provide only a temporary and artificial solution to the country's growing, unemployment problem.

Rationale. Unless corrective measures are taken soon, the economic decline of the last several years will continue during 1990. The basic rationale for the Employment Generation Sub-project is to break the vicious cycle by helping to reactivate the economy through the generation of new employment opportunities and the resurrection of the private sector construction industry and related commerce.

Hope and expectations are very high. There is a general euphoria with the ousting of the Noriega regime, but the 20 to 40 percent of the population which is underemployed or unemployed represents a potentially volatile force for whom the euphoria will quickly fade. The immediate future, the January to May dry season, a period of traditionally high employment, must be taken advantage of to provide some cushion as the Government organizes itself and begins to put its reforms in place.

The GOP recognizes the need for immediate action, but is not able to embark on a large-scale, or even a small-scale, program without external assistance, which is unlikely to come quickly from other donors. Therefore, AID should move forward quickly with an emergency employment activity that can begin to create jobs by no later than early February.

Two-Phase Program. The program is expected to take place in two phases. Phase I (The Emergency Phase) will be a period beginning immediately upon the availability of funds and running for a period of three to four months. This phase is critical because of the current popular expectations and potential political turbulence. It is also critical for seasonal reasons. Many critical infrastructure repair works must be implemented during the next four to six months or they will have to be deferred until next year.

During Phase I, the concentration of work project activity will be the terminal urban centers in Panamá City and Colón as well as the populated corridor connecting these two population poles. Some selected work project activity will be conducted outside of this area such as linear structures (bridges and roads) for which a further deferment of maintenance

or repairs could result in serious public safety risks or the total loss of critical, and costly to replace, infrastructure. Some watershed management activities related to the Panama Canal Basin which are of high priority may also fall outside this area. || No

Phase II will continue these public works projects into 1991 if and when additional funding becomes available. It will consist of basically the same kinds of work projects but will entail the expansion of the geographic area and the increase in participation of implementing entities based on priorities and exigencies identified during Phase I.

Special Development Activities. A number of high impact, community development activities are planned on a nationwide basis. Basically what is intended in this regard is the establishment of a Special Development Activity that can be used by local government units, service clubs, and community groups to complement local community resources and permit the realization of projects such as schools, roads, footbridges, health centers, irrigation structures, potable water projects and other such activities in which the communities themselves will contribute land, labor, local building materials and some cash of their own as well as their ideas and organizational capacity. This activity will be conducted in accordance with an adaptation of the procedures and practices already developed and used successfully by the former AID Mission in Panama.

Types of Work Projects. It has been determined that the most attractive targets for investment in employment generation in Panama would be small work projects which require no, or minimal design or preconstruction preparation. Emphasis will be placed on maintenance, rehabilitation and upgrading of the existing infrastructure rather than new construction.

Typically work projects in the Emergency Phase of the Sub-Project and the early follow-on phase will include such projects as: 1) access roads, streets and related drainage improvements which will enhance transportation and communication essential to industry, tourism, and commerce; 2) local water supply and sewerage systems which respond to basic health needs; and 3) reforestation and soil conservation measures which develop environmentally sound bases for improved land use, and 4) the maintenance, repair and upgrading of public schools which are in a woeful state of physical repair. As an adjunct to this Sub-Project, the restoration of electrical energy distribution system is being explored.

Work projects under this activity will typically employ from 50-250 people, although some will be larger, and a duration of three months. Unskilled workers will earn minimum wages, ranging from \$1.15 to \$1.70 per hour, depending on the task to be performed. Skilled laborers and supervisory personnel will earn somewhat, but not significantly, more depending on their specialties, around \$2.40 per hour. The large majority of the beneficiaries will be unskilled laborers.

Projects will range in costs from \$24,000 to \$150,000 (in the public works sector) depending upon their magnitude and duration, and around \$5,000 to \$40,000 in the area of education and health. Soil conservation projects are smaller and even lower in cost.

At the conclusion of Phase I, the project will contribute \$7.0 million to the reactivation of the economy. That contribution will be distributed in the following manner:

- \$3,265,000 for the creation of 163,260 person-days of work;
- \$2,865,000 for the stimulation of commerce in the purchase of materials, equipment, etc.;
- \$450,000 will be directed toward the reactivation of the defunct construction industry; and

Approximately 137 public work activities, 3 reforestation conservation projects encompassing a multitude of small employment activities; 1,355 classrooms will be renovated and some 60 small community development projects will be realized.

Initial Selection Criteria

1. Local Labor Content. No work project with less than 40% labor/total cost ratio will be financed. Work projects with highest labor content will be given priority.
2. Readiness for Implementation. Work projects which require no, or minimal preconstruction design or consulting work.
3. Revenue producing and/or maintenance saving potential. The degree to which the work project generates secondary or tertiary economic or financial benefits and the extent to which investments now in maintenance reduce heavier repair requirements later on.
4. Development Priority and Socio-economic Benefits. This item refers to the individual merit of the work project or the extent to which the activity furthers other GOP policies, programs, and private sector activities.
5. Non-duplication of other donor activities. Each of these criteria will be considered and weighed, but the most important criteria will be labor content, readiness for implementation, development priority, and non-duplication with other donor projects.

b. Preliminary project analyses

1. Technical Analysis

The situation in Panama favors the implementation of labor-intensive, social and public infrastructure work projects. The ratio of labor costs to total construction cost will average about 55%, ranging from as high as 75% to 90% for reforestation and soil conservation works to as low as 40% to 45% for some road/street and water/sewerage work projects. The proposed reforestation and conservation activities will require few materials (basically seedlings and materials required to erect small vertical structures, fences, signs and pathways) and practically no equipment other than hand tools. Road/street work and water/sewerage construction both require the purchase and delivery of materials such as surfacing mixes, drainage and culvert pipe and related accessories to job sites. This need for basic materials is reflected in lower ratios for labor costs, generally 40-50% of construction cost for these latter types of work projects.

From a technical feasibility point of view, the most important consideration is that: 1) all of the materials that are required are available locally in adequate quantities, 2) no heavy equipment procurement will be required as private sector firms and voluntary agencies will be used for works projects. There are ample quantities of equipment available which is currently under-utilized, 3) no esoteric planning, studies or design work will be required. Basically, the work undertaken will utilize universally accepted design standards which have long been practiced by the GOP. Plans will consist of a simple sketch delineating the scope of the work project and a description of its limitation, outline specifications, a breakdown of costs by labor, materials, equipment and a construction schedule and time table.

2. Administrative and Institutional Analysis

A small and independent, autonomous, special management unit will be required for the general management and coordination of this activity.

The Special Employment Management Unit (SEMU), which will initially operate with three professionals, a secretary and a chauffeur will ultimately be staffed by a Civil Engineer Administrator, an internal auditor, three secretaries; a technical division headed by a civil engineer and supported by seven engineers who will be the liaison officers with the respective implementing entities and who will monitor all of the work projects within their areas of responsibilities; and an administrative division consisting of a business manager and three support individuals with expertise in financial management, contract administration and procurement. (See Organization Chart, Attachment No. 4).

This unit will be responsible for the overall management and coordination of the Employment Program, and for issuing the general guidelines and detailed operational procedures governing Sub-Project activity.

This Unit will also be responsible for all central sub-project planning requirements and will monitor and assist the various implementing entities, private agencies, service clubs (such as the Lions, Kiwanis, Rotary, etc.) and local government, or other community groups. Specifically, the Unit will: 1) review and authorize eligible work projects prior to execution, 2) monitor and perform inspections of work projects in progress, 3) assess and certify completed work projects for final disbursement, 4) manage the Emergency Fund revolving account in the National Bank of Panama, 5) evaluate and make modifications to operational and administrative procedures as necessary. This unit will be the principal counterpart entity for AID. In order to facilitate and expedite the initiation of the Emergency Phase, the SEMU will be created within the Ministry of Planning. The Ministry already has a unit made up of sector coordinators who customarily fulfill many of the important functions described above as principal responsibilities of the SEMU, i.e., monitoring program compliance, planning, and certifying technical soundness and cost rationale. For the remaining functions and certifications, i.e., compliance with procurement and contracting regulations, financial management requirements, the Ministry of Finance will assign two additional persons to the activity.

The positioning of the SEMU within the Ministry of Planning at first is appropriate and satisfactory as MIPPE is traditionally the umbrella ministry for monitoring the execution of the various governmental priorities. Moreover, the Minister of Planning is concurrently the Second Vice President of the Republic thus giving the Ministry the hegemony to monitor the activities of other ministries and to levy controls as necessary.

Although some training and orientation of this unit will be required, it is both minimal and in consonance with the functions that such personnel have habitually performed within their respective parent ministries.

The work of this Sub-Project will, in the first instance, involve two national governmental entities (the Ministry of Public Works, and the Ministry of Education) one national voluntary agency, ANCON, selected local government units, service clubs and local grass roots community interest groups. A number of work projects will be undertaken within the Ministry of Health. These would involve the maintenance and repair of health clinics and other facilities.

Cursory assessments were conducted of all of these entities and it is our opinion that the various entities have the internal

capacity, motivation and will to undertake and successfully complete these activities. The technological requirements of this Sub-Project are low and the governmental entities participating in the Emergency Phase are relatively sophisticated in construction techniques and knowledge. It is our opinion that the technical capacity of both the public and private sectors in Panama exceeds the requirements in this activity. The capacity is currently dormant due to lack of financial resources, but this Sub-Project will provide some of the financing needed to get things started again. The private entity, ANCON, a non-profit voluntary group for the conservation and renovation of natural resources is particularly well qualified and has considerable financial resources to counterpart the resources to be provided by AID.

There are also no institutional constraints to the overall feasibility of the Special Development Activity. Resource allocation in this area is small, projects are likewise small, and past mission experience with SDA activities have been positive.

Although the proposed Sub-Project is uncomplicated, a specific weakness has been noted, especially for work projects to be administered by the Ministries of Public Works, Health and Education. As it currently stands, regulations governing federal acquisitions will apply to procurement under this activity. These procedures, "las leyes de suministros," are antiquated and cumbersome. They levy requirements that will unduly delay even the simplest of procurement actions. For example, such regulations require a minimum bid period of 30 days, require complicated analyses, countersignatures, reviews, approvals, resolutions, authorizations and signatures by the President of the Republic before a contract can be awarded. These procedures are intended to increase financial controls and prevent malfeasance. While the intention is good, there is no evidence that such a layering and such a multiplicity of requirements offer more safeguards than many more flexible alternatives which can be instituted quickly.

To overcome this obstacle, discussions have taken place at senior levels in the Ministries of Public Works, Planning, Education and with the Vice President of the Republic. The Vice President has given his commitment to the support of an Emergency Decree which will exempt the Emergency Sub-Project from such onerous procedures. It is expected that a set of more streamlined procedures can be developed by the time the activity is ready to disburse.

3. Social Analysis

Beneficiaries and Spread Effects

The three primary target groups for the work project are: 1) the large number of unskilled and semi-skilled Panamanians laborers who are underemployed or unemployed, 2) the commercial establishments who

will provide materials, equipment, machinery, tools, transportation and petroleums required for the realization of the work projects, and 3) the depressed private construction industry which will carry out physical construction of the work projects.

The secondary beneficiaries will be the people (the general public) who will benefit by the generally upgraded condition and replacement of the work projects undertaken and those who will benefit from secondary and tertiary economic activities which will flow as a result of the existence of such upgraded projects.

It goes without saying that this Sub-Project will not provide benefits for the entire group of unskilled laborers who are without work. Nonetheless, assuming an average wage rate of \$20 per day, approximately 163,260 person-days of employment will be created. Again, assuming that all of this will be short term, i.e., averaging three months per work project, at least 1,814 people will be employed and will receive income supplements as a direct result of the activities financed under this Sub-Project.

In order to spread the benefits, no one in the labor force will be allowed to work more than a three-month period during a calendar year and private contractor's will be limited to not more than three contracts, or earnings of not more than a certain dollar amount (yet to be determined).

With respect to the Special Development Activity, no community will be eligible to receive more than \$5,000 per year unless the availability of funds exceeds popular demand.

Social Soundness: With the exception of higher level skills in the construction sector, (masonry, carpentry, construction supervision), the predominant employment requirement (approximately 90% of all jobs) by work projects is for unskilled, manual labor. The character of the work (earth moving/shaping, handling, lifting, compacting, excavating, etc.) is traditionally acceptable in this society and within the capability of the unemployed target group. Higher levels skills can be adequately met by those unemployed in the currently moribund commercial construction sector.

Role of Community: Direct community involvement in this program -- in the sense of organized community participation in the entire planning or implementation phases is not contemplated except in terms of those activities to be financed by the Special Development Activity. In these work projects, community participation and the mobilization of local resources will be major. Nonetheless, work projects to be implemented will largely take advantage of the local labor supply and will rely on the traditional community institutions for recruitment of the labor force. The income effects on participating communities is important. Therefore, the use of labor from the community where the project is being implemented will be practiced.

Role of Women: While most direct employment generated by this Sub-Project is customarily performed by men; much of the work can be performed by women. To the extent possible, women will be given the possibility to participate, and in certain work projects such as soil conservation activities, women can compete equally for work. This is very important as many women in Panama are both heads of the household and the sole income earners.

4. Economic Analysis

The macro-economic justification is provided in the Sub-Project Description section of this paper. Time has not permitted the computation of cost-benefit ratios, however, work projects have been selected with a view toward ensuring that positive benefits are created -- primarily through the maintenance of the economic infrastructure, restoration of public services, improvement of health, conservation of natural resources and greater soil productivity.

5. Institutional Roles and Relationships

Public Sector: The sub-project implementing agencies within the GOP will be the Ministries of Public Works, Health and Education. They will: 1) identify work projects within their respective areas of responsibility which meet the project selection criteria, 2) prepare work project profiles as indicated above and submit them to the Special Employment Management Unit (SEMU) for review and approval, 3) will prepare bid documents, 4) conduct bidding for construction activities and award contracts, 5) advance funds to mobilize contractors, 6) make monthly progress payments to contractors, monthly liquidations to the SEMU, and request periodic replenishment of funds, 7) supervise contractors during the construction phase, 8) conduct final inspections of concluded work projects, 9) approve work projects which meet the previously agreed upon plans, costs, specifications and contractual terms or reject work projects which are deficient and request remedial action, and 10) make final disbursements to contractors and final liquidations to the SEMU.

The National Association for the Conservation of Natural Resources (ANCON) will enter into a fixed-price contractual arrangement or an OPG (whichever is faster) with A.I.D.

A.I.D. will act as contract agent for the GOP in order to acquire ANCON's services. ANCON has prepared an unsolicited proposal which is satisfactory in substance and scope with the GOP and A.I.D., and will accomplish measurable and verifiable outputs, generate an agreed upon level of employment, request fund advances and make periodic liquidations to the Special Employment Management Unit. A.I.D. will give approval (countersign) all billing vouchers.

Private Sector: The private sector will provide the materials, equipment, tools, fuels, transportation and construction requirements of the work projects. Work projects will be carried out by private sector construction firms.

In the area of construction, contractors will participate in public bidding and make offers, will contract local laborers both skilled and unskilled, will procure materials, provide equipment, tools and other construction needs and will implement work projects. They will receive fund advances from the implementing entities, make payrolls, meet building requirements, prepare cash flows and liquidate/replenish funding advances on a monthly basis. All construction will be in compliance with local building codes and national design standards.

A number of suppliers will also participate in the Sub-Project. They will sell directly to the contractors on an "as built" and "as needed" basis.

Project Implementation: In order to achieve the major purposes of the Sub-Project, implementation of work projects will have to begin quickly. Therefore, this Sub-Project has been designed to accommodate the need for speed and control. During this intensive review, more than Dols. 50 million in work projects have been identified which meet the agreed upon selection criteria. (See Attachments No. 1, 2 and 3).

The initial steps in work project implementation are as follows: 1) create an account for the Emergency Employment Fund in the National Bank of Panama, 2) establish the Special Employment Management Unit and write preliminary operational procedures, 3) prepare work project profiles, action plans, and bid documents, 4) conduct prequalification of construction firms, 5) let contracts for groups or packages of activities through competitive bidding, 6) promulgate an emergency decree to exempt this activity from lethargic procurement procedures, and 7) organize an intersectoral Special Project Development Committee (Private and Public Sectors and including representatives from PVOs and service clubs).

Disbursement Procedures: Taking into consideration the emergency nature of this Sub-Project and the relative cash position of the GOP at this time, AID should be prepared to authorize an advance of funds which will be based on a 45-day projection of Sub-Project needs. The advance will be made to the Emergency Employment Account in the National Bank of Panama. The account will be managed by the Special Employment Management Unit.

The documentation requirements and certifications for payments will be spelled out later in Implementation Letters and the Grant Agreement.

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3. Technical Assistance and Commodity Support Fund Subproject

a. Problem

An interventionist public sector philosophy has held sway since the early 1970's, bloating the public sector to the point where it recently accounted for one quarter of the employed work force. During the last two decades public institutions were staffed largely on the basis of loyalty to the ruling party. While the loyalty dissipated, the outcome of this extreme degree of politization of the government's employment policy was that civil servants were demoralized and dedicated less and less effort to the work of government. This process culminated with the creation of the "Dignity Battalions".

Because of the financial crisis, government revenues declined so dramatically over the last three years that the budget could no longer finance the maintenance of the extensive public infrastructure developed since the 1970s.

Intervention by the Noriega regime throughout the economy stifled the private sector and produced an inefficient, over-sized and highly centralized public sector. Moreover, the Endara government inherited public institutions inefficiently providing the minimum of public services, and systematically siphoning significant portions of government revenues for the personal gain of the PDF and high government officials.

The Endara government also inherited public institutions with minimum or no spare parts, in critical disarray and with little or no accountability. In many cases equipment and records were destroyed by the "Dignity Battalions" during the recent fighting.

In the last several months of the Noriega regime, the "Dignity Battalions" created defense committees within government institutions. The Endara government is currently screening personnel, removing those associated with Dignity Battalion activity and looking for evidence of corruption. Identifying and utilizing competent personnel is an urgent task in the short term.

To reverse the direction of the statist and highly corrupt government, the Endara administration has developed an agenda for national reconstruction emphasizing a market-oriented policy framework. The strategy will rely on the private sector as the engine for growth complemented by a restructured and leaner public sector.

The new senior GOP officials face serious bureaucratic confusion which must be overcome immediately in order to quickly restore and maintain the delivery of essential public services. To do so the new government must determine its assets, the current capabilities of its various agencies and personnel requirements. The immediate re-establishment

of functioning government institutions is also critical to the establishment of a governing body which provides the confidence, security and continuity for the recuperation and enhancement of the role of the private sector in the Panamanian economy. To this end AID proposes to establish and fund a mechanism to make technical assistance available on a rapid-response basis. In addition, we propose to provide a short term supply of critical commodities required by the government to restart essential services and to begin the restructuring of the public sector envisioned by the Endara government.

b. Goal and Purpose

The overall goal of the U.S. assistance program is to assist the Endara government reactivate the economy through private sector led growth and to provide assistance to Panama's efforts to consolidate democracy. The purpose of the sub-project is to assist in the urgent rehabilitation and restructuring of public sector agencies in order to provide the necessary structure and stability for economic recovery.

c. Rationale

The Endara government is committed to a fundamental restructuring of the role of government agencies through the opening of the Panamanian economy, the privatization of state owned enterprises, the removal of monopoly control over various industries, the establishment of accountability within government ministries, the reinstatement of a functioning auditing system in the Contraloría and government agencies, and the establishment of a leaner government bureaucracy. They bring few people experienced in the public sector to their task of governing. This sub-project will assist the new government team in initiating these and other efforts during this key transition period towards a functioning democracy. Early on expertise will be provided to assist in the formulation of a national budget. The government has been operating without an approved budget for the past two years. The sub-project will also provide commodity assistance of an emergency nature in order to normalize the provision of essential public services.

The GOP is committed to reducing the role of the state, instituting laws and regulations which will allow market forces to operate and reducing the size of the government work force. This policy transition coupled with the effects of the economic crisis suggest that the GOP is facing a formidable task. The short-term specialized assistance proposed under this sub-project will be instrumental in restructuring of the government during this critical period.

d. Project Description

The sub-project will finance two elements: a) a core group of three advisors and an administrative assistant located at MIPPE

together with a fund for financing required short term technical assistance by government ministries and agencies, and b) urgently needed equipment, spare parts and materials for key government agencies.

i. Technical Assistance

The Technical assistance element of the sub-project will be administered and coordinated by MIPPE under the direction of the MIPPE project manager. The technical assistance will be available to all government agencies. The Technical Service Core Group (TSCG) will consist of a Public Administration Specialist, a Finance/Budget Specialist, an Economist and an Administrative Assistant. The TSCG will assist MIPPE and other government agencies in areas of their respective expertise as well as identify and obtain the immediate short term technical assistance needs of government agencies. The three members of the Core Advisory group and the Administrative Assistant will reside in Panama during an initial period of 5 months. The Core staff will be assisted as required by short-term specialists who will provide specific technical assistance. The ability to call on short-term specialists from the home office is a critical requirement under this activity. Below is a partial list of areas in which the GOP requires technical assistance. The technical assistance program will be demand driven, responding to the immediate needs of the government.

The Contraloría (Comptroller General) requires technical assistance to develop a standard financial control and information system for all government ministries and agencies. The Comptroller also requires assistance in systems information security, evaluation and layout of hardware, short courses in auditing principles and financial management. This assistance is urgently needed because the new government has found an ad hoc system with no effective controls which enabled diversion and outright theft of government funds.

The Minister of Finance (Tesoro Nacional) noted that this period of political transition is an opportune time to develop a national civil service system based on merit and job security. Assistance to develop a new civil service system which will provide the confidence the Panamanian tax payers demand will both rationalize the bureaucracy and significantly reduce current expenditures.

Most agencies providing public services require financial analysis of their operations to determine fee schedules which would provide financial self-sufficiency. The large subsidies required by revenue generating agencies can no longer continue given the current and future prospects of the GOP financial situation.

A number of government agencies require drastic restructuring. Three years ago USAID/Panama financed a study which recommended restructuring and eliminating a number of functions of the

Ministry of Commerce and Industry (MICI). Other studies have recommended the abolishment of the Agricultural Development Bank (BDA).

The GOP has recently proposed the restructuring of the National Bank of Panama (BNP) in order to separate its functions as the Government's Bank, the clearing house for the banking system, and its development and commercial banking functions. A strategy for implementing the privatization of the commercial banking function of the BNP should be initiated urgently.

Vice-President Ford recently announced that the GOP will proceed with the privatization all state owned enterprises and that studies leading to this end should proceed in the short term.

The management of the port authority requires a radical transformation to reduce costs and improve productivity. The government also proposes to eliminate the monopolies which exist in the transport sector because of the high cost and inefficiencies resulting from the current arrangements.

The government will also need advice on national financial and credit policies in order to deal effectively with its creditors.

A current picture of the critical components in the housing sector is required in order to develop a strategy for its reactivation. Studies are required on current demand for housing, the financial condition of builders and individual housing projects, the financial condition of the mortgage banks, and the available supply of infrastructure and construction materials.

Seminars to discuss the respective roles of the public and private sectors in housing and to consider and propose reforms which would lead to a more efficient distribution of functions should be initiated quickly.

Given the lack of central government resources to maintain the educational infrastructure, alternate maintenance plans to be implemented by communities and neighborhoods must be developed.

The Mayor of Panama City has requested technical assistance in: data processing and administrative systems, revenue generation programs, auditing and accounting, administration of public markets, parks and recreation areas, planning and administration of municipal sub-projects, and short term training for municipal employees. The Mayor has also requested assistance in developing a public awareness program including topics such as security, sanitation and civic responsibilities.

ii. Commodities

Because of the government's financial situation and the fact that it has not been operating with a budget for the past two years, the procurement of equipment and spare parts by key government agencies is seriously behind schedule. The Team has identified four key government agencies requiring urgently needed replacement equipment, spare parts and materials: (1) the Ministry of Health, (2) the Ministry of Public Works (MOP), (3) the Electricity Company (IRHE), (4) the Garbage Collection Company (DIMA) and (5) the Water Company (IDAAN). For example, the Electric Company has depleted its inventory of replacement equipment and parts to the extent that the replacement and maintenance of transformers, insulators, hardware, distribution cable and the repair of substations and switching stations is no longer possible on a normal basis. While repairs to the electrical system are only moderately labor intensive, the effect of loss of electrical energy to the economy in general and employment in particular is so great that some emergency procurement is required. Annex (C) provides a list of commodities urgently required by the above noted agencies.

e. Financial Plan

Activities which can be completed within the 150 day period authorized by AID/W will be financed under this sub-project. Activities which will require a longer time frame for implementation will be funded under the medium term continuation of the sub-project. Commodity requirements for the medium term will be determined during the emergency phase, they will include equipment for schools which were vandalized. Technical assistance for the medium term will also be determined during the emergency period.

The total cost of this sub-project is \$5.5 million, of which \$1.5 million is allocated to technical assistance and \$4.0 million for commodities. The MIPPE will provide office space and secretarial assistance to the Technical Services Core group (TSCG) as well as counterpart personnel from MIPPE and other government institutions to support the efforts of the TSCG and the short term technical assistance.

Summary Financial Plan

1. <u>Technical Assistance:</u>	
a. Five-month Advisors (3) and Administrative Asst.	\$ 300,000
b. Short Term Advisors	1,000,000
c. Training/Seminars	<u>200,000</u>
Sub-Total	\$1,500,000
2. <u>Commodities:</u>	
a. Health	\$1,000,000
b. MOP	1,000,000
c. IRHE	1,000,000
d. DIMA	500,000
e. IDAAN	500,000
Sub-Total	\$4,000,000
Total	\$5,500,000

f. Methods of Implementation and Financing

The following provides information relating to the methods of implementation and financing for funds obligated under this sub-project:

<u>Item</u>	<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Amount</u>
1. Technical Assist. PIO/T	Direct Contract- Payment	Direct	1.5 M
2. Commodities	Host Country Contract	Direct L/Com	<u>4.0 M</u>
			5.5 M

The planned methods of financing fall within the preferred AID methods of financing. AID will contract with a U.S. 8 (A) firm for technical assistance. The Government of Panama will negotiate and contract for commodities from their usual sources of supply. AID will issue direct letters of commitment to suppliers of commodities and make payments directly to them on receipt of invoices and supporting documentation.

g. Implementation Management

The technical assistance element of the sub-project can be implemented by an 8 (A) firm. The recommended firm is Development

Technologies, Inc. The team has learned that this firm recently did outstanding work in Financial Management for the World Bank in Jamaica. The firm was also involved in a Public Administration project for AID in Panama, with excellent results. The firm has done similar work for the World Bank in Costa Rica and is noted also for its strong economic capability. The Contract should be on a cost reimbursement plus a fixed fee basis, as this is the appropriate mode given the uncertainties in the amount of work and conditions under which the work will be performed.

The Contractor will assist all government agencies by providing technical advisory services in the areas of economics, financing/budgeting and public administration. The Contractor also will assist government agencies, in the identification of and scoping of short term technical assistance requirement. The Contractor will manage and implement all technical advisory services, short-term training and seminar. The Contractor Chief of Party (the Public Administration Specialist) will obtain the clearances of both the MIPPE project manager and the AID project manager prior to proceeding with the implementation of short term T.A. services.

At the beginning of each 5-week period the Contractor will prepare/update a work plan for review and approval by both the MIPPE project manager and AID. Reports to be provided every 5 weeks will indicate progress toward the plan submitted, revisions and new plans for the subsequent period.

h. Staffing Requirement

A Project Development or Program Officer will be required on a TDY of full time basis in Panama in order to serve among other things as project manager for this activity until the Mission is permanently staffed.

4. Small Business Lending Activity Subproject

a. Problem

During the hours after U.S. Forces arrived in Panama, the Panama Defense Forces and paramilitary "Dignity Battalions" looted and vandalized, and then invited public looting of private businesses in Panama City and in Colon. Many of these businesses, particularly retailers who had unusually high levels of stock during the week before Christmas, and store-owners in areas in which multiple one-owner stores made up centers whose commercial synergism depends upon the health of the community of stores, lost not only a large portion of their working capital, but also the viability of the business center itself. Some cannot replace specialized equipment not available in Panama. Many have had to close, lay off employees or declare extended furloughs. The Panamanian business community is doing much to ameliorate the problem with its own resources. Several larger businesses, in fact, are already reopening. However, many enterprises, particularly smaller businesses, face bankruptcy.

b. Summary Sub-Project Description

Goal: The sub-project goal is to maintain employment and restore private sector-led economic growth.

Purpose: The sub-project purpose is to save jobs by assisting otherwise viable small private enterprises to replace stolen or damaged and destroyed equipment and inventories. This assistance will take the form of one-time emergency loans for inventory, equipment and short-term working capital. It will be extended through the Fundacion para el Desarrollo Economico y Social (FUNDES) and local banks to sub-project beneficiaries.

Summary Description

A.I.D./National Bank Disbursements to Primary Account: A.I.D. will provide a grant to the Fundacion para el Desarrollo Economico y Social (FUNDES). The grant, less a minimal share of FUNDES administrative costs, will be deposited in a National Bank of Panama account (Account No. 1) in the name of FUNDES. An amount not to exceed \$120,000 will be authorized from the A.I.D. sub-project grant for overhead costs associated with extraordinary costs of administering the sub-project during an intensive five-month emergency period. As FUNDES will benefit from reflows (into a separate account) from loans administered under the grant, no further A.I.D. funds will be provided for this purpose beyond this five-month period.

Loan Approvals/Disbursements to Beneficiaries: FUNDES will identify eligible beneficiaries of sub-project loans based upon agreed-upon criteria (see below) and present loan packages to banks which

*grant
loan*

participate in the ongoing FUNDES loan guaranty program. When a participating bank approves a loan, FUNDES will write a check to the bank against its A.I.D. grant account (No. 1) in the National Bank for the amount of the participating bank's loan to the sub-project beneficiary. The participating bank will disburse to the beneficiary or his suppliers in the same way it handles other bank loans.

Terms: Three types of funding (equipment, inventory, payroll) will be available under a single loan with monthly payments. These payments will be varied or structured to recover those portions of the loan designated for shorter term requirements early.

<u>Term</u> <u>(Up To)</u>	<u>Purpose of Loan</u>	<u>Interest Rate</u>	
		<u>1st Yr</u>	<u>Thereafter</u>
3 yrs	Equipment	7%	Market
180 days ^{1/}	Inventory	7%	N/A
180 days ^{1/}	Payroll (up to 60 days)	7%	N/A

The maximum loan to any individual enterprise (total from all loan types) will be \$25,000.

Repayment and Reflows: Beginning 60 days after the disbursement date of the loan, the participating bank will begin transfer of the loan repayments, including interest, back to a second account (No. 2), a trust account to be administered by representative trustees of FUNDES and the Asociacion Panamena de Ejecutivos de Empresa (APEDE) and dedicated to a future lending program for micro businesses.

Expected Achievements/Accomplishments: A.I.D. intends that loans provided under this program will be fully disbursed within 90 to 120 days and that they will benefit at least 400 businesses and represent 2,000 full-time jobs in the economy in the hardest hit Panama-Colon corridor.

c. Technical/Administrative/Financial Analyses

Proposed Grantee and Implementing Agency: Included among unattached Annexes to this paper are descriptions of FUNDES and APEDE and copies of their most recent audit reports. With FUNDES as lead agency, these two organizations together comprise the principal implementing organization, with FUNDES providing loan processing and follow-up in Panama City and APEDE performing this function in Colon. (Loans from both organizations will be channeled through a single FUNDES Credit Committee in Panama City.) The grant is to FUNDES. The roles of these and other contributors to the program are described below.

^{1/} In effect

National Bank of Panama (BNP): The National Bank of Panama will, as funds are disbursed from the A.I.D. grant account, transfer into a third FUNDES account (No. 3) as a grant, an amount equal to FUNDES disbursements from the A.I.D. grant. The working assumption is that when the A.I.D. grant is depleted, BNP funds equaling the A.I.D. grant will be available to continue the program. It is also anticipated that the BNP will contribute manpower to this program in the form of credit analysts and field technicians assigned to FUNDES-supervised teams.

The Banks: Participating banks will service these loans at a cost of \$0 to \$10 per loan per month^{2/}. The banks will receive, screen and assure proper completion of some loan applications. They will also contribute the time of bank executives to the Credit Committee which will meet as required, but as often as every day. It may happen that some beneficiaries of this program have outstanding loans with Panamanian banks from a time several years ago when small businesses could obtain such loans. Bank interest and support could derive from the fact that the program may serve as a possible source of funding for some bank customers. Banks whose customers benefit from this program must subordinate this outstanding indebtedness to new FUNDES loans.

The Ministry of Commerce and Industry: The Ministry of Commerce and Industry will contribute manpower in the form of credit analysts seconded to FUNDES-led teams. MICI has also offered to provide office space if necessary. MICI has requested representation on the FUNDES Credit Committee.

FUNDES and APEDE: FUNDES is providing the support of its current technical capabilities (credit analysts for interview and application reviews, project technicians for on-site inspections, credit committee for preliminary approvals, and follow-up supervision of outstanding loans), its offices, and general supervision from its member business executive volunteers. APEDE is providing similar support for the loan portfolio which is to be developed in Colon. APEDE will serve as a member of the Credit Committee. (See structure of Credit Committee under Step 4 of the Loan Administration section below.).

Contributions of Other Donors: Included among the unattached Annexes to this paper are copies of current agreements of FUNDES with other donors, including the IDB, Canada and CRS. FUNDES Panama was

^{2/} There was not time to confirm this arrangement. FUNDES already runs its current lending program through these banks and believes that some may be willing to provide loan administration as a social contribution. A normal arrangement might involve a 2% administrative fee, i.e., 2% to the bank and 5% to FUNDES. We believe a flat \$10 charge would be fair.

developed with support from the Swiss Foundation for Economic and Social Development. Though independent, FUNDES Panama is still associated with the Swiss Foundation.

Beneficiaries: Metaphorically speaking, some otherwise healthy Panamanian businesses have suffered a tragic accident. Some were unhurt. Many are injured, but conscious (open for business, but operating at less than full capacity). Some are more seriously hurt and now unconscious (unable to open or open with inadequate stock to survive). Some are deceased. A.I.D.'s emergency resources will be focussed on reviving the unconscious. These businesses may be defined as follows:

- Otherwise viable small businesses (maximum capital employed ^{3/} not to exceed \$60,000, exclusive of realty) whose failure is assured by the direct and indirect economic effects of the looting and vandalism. These are businesses which remain closed (or have inventories of less than 30 days) and could not open without this assistance.
- Businesses whose viability contributes the most to employment, whether directly, or indirectly as a function of their service or product, and whose ratio of loan to restored jobs is at least one job to \$5,000 (counting only one family member, including the owner).
- Businesses which provide essential products/services to poorer neighborhoods.
- At least 15% of the total lending will be set aside for eligible enterprises in the Colon area, but at the end of 90 days, funds remaining in the FUNDES grant account for either Colon or Panama city will be open to lending in either Panama City or Colon.

Loan Criteria: We have prepared an illustrative grid (See Annex D1) which indicates the general criteria (and weightings) which will be used by the Credit Committee in determining priority for loans under this program.

Steps and Administrative Roles in Loan Administration.

Step 1. FUNDES will solicit applications for loans through TV, radio and newspaper announcements. Much of this will come from public service announcements, but some funds have been provided for this purpose.

^{3/} Maximum capital employed is defined as equity plus bank loans plus supplier credits plus shareholder equity plus everything else.

Step 2. Applications will be received, screened and reviewed for completeness and accuracy by any one of the FUNDES, APEDE or participating bank offices. If applicants are eligible, they will be provided applications and assisted in preparation of the applications.

Step 3. National Bank of Panama and Ministry of Commerce employees trained by and seconded to FUNDES, and FUNDES analysts will review applications. If all is well, sub-project technicians will make on-site inspections to assess the accuracy of information on the applications.

Step 4. Confirmed applications will be submitted to the Credit Committee, which includes representatives from banks licensed to operate in Panama, the Ministry of Commerce and Industry and APFDE. At least one minority or woman representative will be a member of the Committee. Applications will be reviewed for creditworthiness and other eligibility factors described further below. The Committee will meet as frequently as needed and as often as every day to review staff-recommended loan applications.

Step 5. Application packages approved by the Credit Committee will be submitted to participating banks for loan processing and disbursement.

Step 6. Loan administration and repayment will be handled as described in the Sub-Project Summary Description above, but one additional matter is involved. Every month, FUNDES technicians prepare and send to the Credit Committee a credit report on every outstanding FUNDES loan. At the first sign of problems, FUNDES sends a field supervisor to check any problem and address it.

Relevant Experience with Similar Projects. In a similar project in El Salvador in which A.I.D. provided emergency lending to small businesses following the earthquake, an important problem was that the Banks that administered the loans put none of their own resources into the program. They risked nothing. They profited from administration of the loans, but defaults cost them nothing. Though this sub-project is similar, it is different in that it benefits from the services of an additional, motivated entity, FUNDES/APEDE, which provides the missing links between the small enterprise borrower and the formal banking system. Since the A.I.D. grant funds will return to FUNDES/APEDE, they have more than just a technical and professional interest in assuring repayments.

d. Factors Affecting Sub-Project Selection and Development

Social Considerations: Some larger businesses also face bankruptcy. However, A.I.D. does not have adequate resources to respond to the needs of the larger businesses at this time. In order to define a program within the limited resource levels available during the emergency phase and to assure rapid disbursement of funds, we recommend parameters for

assistance focusing on relatively smaller businesses with relatively higher rates of employment to investment. We believe that many of the affected Panamanian private enterprises above the \$100,000 capital base range will be able to get through this initial period of emergency by trading on the good faith and creditworthiness established with their banks and suppliers in the past and by their good fortune in being in areas which can regenerate commercial activity rapidly. There is evidence that this is occurring. However, this will not be true of many smaller one-store enterprises, particularly some that provide jobs in and serve poorer areas of Panama City and Colon. These small businesses do not normally have access to bank credit, so lending to these businesses would not displace bank credit.

The looting which occurred in Panama was result of a well-planned effort by General Noriega's "Dignity Battalions" to incite riot and disruption. The battalions moved systematically through commercial areas, shooting out windows, breaking locks, taking valuables, breaking equipment, moving to the next store and inviting people to take anything that was left. It seems apparent that the areas attacked were chosen because: (1) there were particularly high value items present; (2) there was minimal security; or (3) there were poor people in the area who could easily be encouraged to exploit the situation. Stores in poorer area commercial centers suffered disproportionately since the synergistic draw of entire commercial centers has been disrupted. Many small Chinese-owned neighborhood shops in poor areas were cleaned out.

Economic Considerations: A.I.D. wants to avoid creating new knots in an overtaxed banking sector by tying up bank resources and people in a labor intensive small enterprise lending program directing economic resources to less-than-viable enterprises. The market would not allocate resources to these businesses.^{4/} However, it is important that U.S. assistance and the Panamanian business community be organized and targeted to reach otherwise viable businesses which would otherwise fail for lack of prompt attention. A major objective of the A.I.D. program will be to free available resources within the financial system for this purpose. We wish to keep the patient alive until emergency care arrives.

A very rapid survey by one of our team members indicated that very small and micro businesses were not generally affected by the looting. To the extent that they were, they will fall into an area of eligibility for this or other programs. Both the IDB and CRS are financing micro-enterprise loans through FUNDES. Micro enterprises affected

^{4/} When the U.S. Banks began to withdraw from the medium-sized business loans several years ago, the Panamanian Banks retreated to that area for their lending programs and left the upper level small businesses (\$60,000 to 100,000) without credit resources. The USAID/Panama small business loan program was lending to businesses with capital investments of up to \$100,000 when the program was suspended in December 1987.

by the looting (there were a few) can be assisted from those sources. This A.I.D. program can assist viable businesses down to the bottom end of the small business sector.

Economic Assumption: In designing this activity, we have assumed that there would be inadequate credit available in the Panama financial system over the next three months (and longer) to address the needs of small businesses and that, if available, rates would be too high for the businesses which have suffered the highest levels of devastation. This assumption is a well-considered one, but it might change if the foreign banks were to begin to transfer new resources into Panama.

The types and sizes of businesses targeted for this lending program will buy most of their inputs in Panama, thereby increasing the economic affect in Panama.

Relative Costs of Job Creation: The Emergency Employment sub-project included in this package will create jobs with an average hourly wage cost of \$1.70 per hour. On a basis of 30-day months, the cost per year per job would be \$4,896. This lending program will save jobs at about this cost (much of the investment has already been made by owners) and the jobs will be permanent ones.

A.I.D. Policy Issue: Some will question whether A.I.D. should support a program which provides funds at below market rates. Our response is that following disasters in the U.S., the U.S. Government provides loans at the FED Funds rate. This is a similar program. The difference is that in this program the loans escalate to market rates after one year.

e. Estimated Costs and Methods of Financing

This sub-project will be financed through a grant to FUNDES according to procedures described above. Illustrative budget tables are attached at Annex D2.

Financial assumption: Though we assume that the GOP will want to contribute to this program, it is possible that fiscal resources will be too limited. We assume that approval of the A.I.D. grant will not be conditioned upon this GOP contribution.

f. Implementation Schedule

See Annex D3

g. Request for Special Authorities

We have assumed that because of the emergency nature of this activity, it will be funded under OFDA authorities. If not, it will require a quick review for conformity with current A.I.D. regulations.

Though we have not done an environmental examination, we believe that the nature of the activity is such that it would qualify for a negative determination.

h. A.I.D. Support Requirement(s) and Capability

Though we have not set aside funds for this purpose, both FUNDES and APEDE have indicated their respect for IESC technical assistance. If it seems appropriate, IESC support fund could be added to the budget.

We anticipate that the LAC Bureau's Trade Credit Insurance Program (TCIP) might complement this sub-project nicely. TCIP is included in the overall Panama plan.

This sub-project would best be managed by a private sector officer. In view of the intensive nature of the program during this emergency period, a TDY private sector officer should be assigned to manage the sub-project until the Mission is permanently staffed.

5. Restructuring of the Banking System.

The banking system has been working at a very low level of activity since early 1988. The fact that banking functions have continued is a tribute to the resiliency of the financial system of Panama, but a reconstruction program cannot succeed without a revitalized banking sector. Apart from emergency relief, actions discussed in this paper would have minimal effect unless the banking system is reactivated. The most urgent need is to obtain technical assistance to assist in the design of a program to reactivate financial intermediation. The GOP has requested technical assistance from the IMF, the World Bank and the U.S. Treasury. We understand that they have received a favorable response from the IMF and the World Bank, and that IMF and World Bank teams could arrive as early as the third week of January. We do not know the U.S. Treasury plans with respect to this important issue.

An analysis of the banking problem in Panama must make a distinction between BNP, the Caja de Ahorros, the foreign-owned banks, and the Panamanian-owned banks.

Banco Nacional de Panama. The Banco Nacional de Panama carries out essential Central Bank functions: it holds the reserves of the commercial banks and it ran the check clearing mechanism. Therefore, the proper functioning of the banking system depends on the ability of BNP to carry out its central bank functions, or those functions would have to be transferred to another institution.

BNP's solvency depends on the GOP's ability to repay \$94 million of recent loans (overdrafts) obtained from BNP. Even if these non-financial public sector loans were repaid, the private sector portfolio of BNP contains a large proportion of non-performing loans, and this also threatens BNP's solvency. Restructuring BNP, including the privatization of its private sector activities, is a top priority.

The Caja de Ahorros. A government-owned savings bank, has branches throughout the country and almost 500,000 depositors. It had the reputation of being a conservative in its lending operations—almost 90% of its lending activities are mortgages to finance low to middle income housing, and their arrears have been low. In the last two years, it is said that management of the Caja de Ahorros deteriorated considerably and that its financial position is much worse than it had been. Additionally, as it kept all its deposits with the BNP, its liquidity position is inexorably linked to BNP's own liquidity. The Caja de Ahorros, however, is probably solvent. Assistance to the Caja de Ahorros is important from an equity point of view as its depositors have lower incomes than the depositors of the commercial banks.

There are thirteen Panamanian-owned banks, of which three are primarily mortgage banks. At the end of 1978, total assets of the Panamanian-owned private banks were \$1.7 billion. Given the monetary system

and the lack of a lender of last resort, these banks have kept reasonably high liquidity -- at the end of 1987, liquid assets were \$477 million, or 28% of total assets. As roughly half of total liquid assets are kept in Panamanian banks, including the BNP, the liquidity of each bank obviously is closely related to the liquidity of the system as a whole. The loan portfolio of these banks, including the commercial banks, includes a large proportion of mortgage-backed loans, mostly for housing but also including commercial real estate. All these banks face a liquidity problem; it is necessary to make an assessment to determine which of these banks may be insolvent.

The foreign banks dominate the National Banking System. Their assets declined from \$27.1 billion at the end of 1986 to \$18.6 billion at the end of 1987, but they still account for about 84% of total assets of the National Banking System. The foreign asset/liability position of these banks as a whole is basically in balance, with net foreign assets equal to \$44 million. However, some of the foreign banks have substantially negative positions. These banks have recourse to their corporate headquarters, and therefore, their position is quite strong in relation to other banks in the system.

The first step for restructuring the bank system is to carry out an assessment of the situation by an independent team of experts. It is likely that a solution may require the establishment of a mechanism to act as a lender of last resort. This lender of last resort must have sufficient funds to be completely credible; it must provide resources only when adequate collateral is provided; and, it must charge interest rates higher than market rates to discourage unnecessary use.

C. Emergency Program Summary Cost Estimate

EMERGENCY PROGRAM SUMMARY COST ESTIMATES
(By Sub-Project and Component Totals)

<u>Sub-Project/Component</u>	<u>Component Costs</u> (\$000)	<u>Sub- Project Costs</u> (\$000)	<u>Medium-term Continuation Estimated</u>
Chorrillo displaced persons Housing HIG-012		\$ 12,500 (3,500)	
Total Chorrillo		\$ 12,500	
Emergency Employment Public infrastructure	6,500		
ANCON conservation/ reforestation	200		
Special Development Act.	300		
Employment Total		7,000	\$ 43,000
Tech. Assistance Support Fund Five-month Advisors (3) and Administrative Assistant	300		
Short-Term Advisors	1,000		
Training/Seminars	200		
Technical Assistance Total		1,500	\$ 3,500
Commodities Health	1,000		
MOP	1,000		
IRHE	1,000		
DIMA	500		
IDAAN	500		
		4,000	\$ 16,000
Small Bus. Lending Activity Credit	4,870		
FUNDES Credit Administration	130		
Total Small Business		5,000	
Total Cost of Emergency Program		\$30,000	\$ 62,500

NEW MEDIUM TERM PROGRAM

	<u>FY90</u>	<u>FY91</u>
ESF	\$500,000	\$200,000
HG-013		(25,000)
TCIP	(15,000)	

D. Program Implementation Flexibility

While each of the above described sub-projects have reasonable cost estimates, it is not clear at this time that the pace of implementation will proceed evenly or as rapidly as expected for every component. For this reason, the Team recommends that maximum flexibility to transfer funds between line items with sub-projects, and between sub-projects be allowed in order to maximize the use of resources during the implementation period of the Immediate Recovery Program.

E. Audit

As agreed to with RIG Honduras (Telcon C. Gothard/D. Chiriboga) on 1-13-90, the types of audits to be conducted for the Immediate Recovery Program will be determined subsequent to approval of the Program by AID/W. RIG/H will field a two-man team the week of January, 22 to make this determination in cooperation with other AID personnel on TDY in Panama.

IV. OTHER SHORT-TERM ASSISTANCE

A. Reactivating Regional Projects and LAC Regional Projects

Once current restrictions on assistance to Panama are waived or otherwise lifted, there are a number of regional projects which should be activated or reactivated in Panama. Project assistance in areas of priority can make important contributions to economic recovery. In addition, they can serve as vehicles for renewing Panamanian cooperative relations with its neighbors. These relationships were damaged and, in some cases severed in the latter years of the Noriega regime.

While we would expect that the full range of regional projects will be renewed in Panama over the coming months and years, there are several which should come in right away. For the others, it would be better to stagger their arrival so as not to overwhelm the new Government or exceed the reforming resident AID staff's capacity to coordinate and monitor their activities.

ROCAP projects which could make early, important contributions by carrying out activities within existing resource availabilities in order of priority are:

RENARM - Support to PVOs working in Natural Resources Conservation/Environment is needed as soon as possible. There are several active PVOs which could benefit from advice and modest financial support. As the government becomes able, assistance in reviewing, improving national policies will be important. Within a few months, GOP and AID Mission could benefit from technical cooperation in beginning to formulate AID bilateral assistance in this area.

Non-Traditional Agricultural Export Support - While we do not foresee active involvement with the public agriculture sector in general, the technical resources of this regional project could assist producers, producers' associations now in identifying and opening new marketing channels. In a few months, the AID Mission could benefit from the technical advisory help in formulating bilateral project assistance for non-traditional export development and finance. We anticipate activity broader than agricultural exports, but they likely would be an important target of such assistance.

FEDEPRICAP - The Panamanian private sector is well organized and has traditionally enjoyed strong links with associations throughout the regions. FEDEPRICAP can play a useful role in reactivating these relations.

Economic Policy Research Project - In the next several weeks, contact with INCAE could be especially useful to the new government in the area of forging a public-private sector (labor in particular) consensus. The crucial, divisive issue of labor code reform might be the focal point for a government not naturally close to organized labor.

LAC Regional Projects - Several LAC/CA Regional projects also should be reactivated in Panama. While time has not permitted a thorough review of the possibilities, we believe priority projects include:

- CA Regional AOJ, CAICITAP, CA Regional Democracy Strengthening and CA Regional Legislative Management - These four are critical and should be geared up to provide assistance the minute restrictions are lifted. AOJ/DI activities are the subject of a separate interagency assessment now underway.
- RTAC - Renewal of the university bookstore program here is highly desirable.
- AIFLD - The labor movement in Panama has been totally corrupted by the former regime. AIFLD has already sent personnel in for reconnaissance and advise us they have full State Department clearance to reopen. Hopefully, regional contract funds can be made available for their assistance to democratically-inclined labor organizations. We would foresee their liaison in Panama being the Embassy Political/Labor Office.
- LAC Regional Technical Support Projects - Urgent needs foreseen in the proposed Technical Assistance Support Fund could be complemented by specialized expertise from these sources.

B. Actions to Restart Bilateral Projects

The A.I.D. portfolio forged before the Mission was closed in 1987 was appropriate to the then prevailing circumstances in Panama in A.I.D. As indicated throughout this document, the vision of the new Government and ourselves for private-sector led growth and dramatic diminution of the role of the public sector points toward a very different focus for A.I.D. assistance.

While elements of former projects may surface in a new program, we recommend reactivating only three at this time. The first is CAPS/CASP for 120 participants to begin training in 1990 at a cost estimated at \$8.4 million. Sixty participants have completed in-country English training and been waiting for six months to begin their U.S. training. They should be funded immediately; 60 additional were planned and should be funded to begin training this summer. Beyond that, the question should be revisited, but we are inclined to believe CAPS should be renewed and continued.

In the cases of the COSPAE (short-term private-sector supported U.S. scholarships) and PANAJURU (in-country, vocational agricultural scholarships) projects, once restrictions are lifted, they should conclude planned activities. Follow-on activities may be desirable, but will need further study.

There are two HIGs still in the books from the former program -- HIGs 012 and 013. 012 has been discussed elsewhere in this paper. It has over \$7.5 million remaining, already contracted and in escrow. \$3.5 million is proposed for use in the Chorrillo Displaced Persons Housing sub-project. Uses for the other \$4.0 have not been identified yet. This issue should be resolved promptly.

The second HIG (013) was authorized in 1986, but funds have not been contracted. While our inclination is not to reenter the housing sector on a continuing basis, if it could be used to enhance the liquidity of the Panamanian private sector mortgage banks this last HIG may contribute to a key part of the recovery strategy. This issue can be resolved in the next few months.

V. THE MEDIUM TERM RECOVERY PROGRAM

A. Economic Recovery Program for 1990

1. Introduction

The mid-term recovery program will require the participation of international financial institutions (IFIs) and bilateral assistance institutions, preferably within the context of a Consultative Group. The formation of a formal Consultative Group may have to be preceded by the formation of a support group that would provide some of the resources for the clearing of arrears to the IFIs (\$536 million). At the same time,

negotiations could begin with the commercial banks to reach an agreement designed to adjust debt service payments to Panama's ability to service its external commercial debt.

The economy is in the midst of a recession which began in 1988 and which will become much worse unless incremental financial resources are made available immediately. A key issue that affects the flow of resources to Panama is the large level of external arrears which were accumulated by the previous government. Although there is a need to clear those arrears, the most important priorities are to clear domestic arrears and to provide incremental resources to the banking sector to permit higher levels of lending, and to the public sector to permit a higher level of productive investment.

The analysis of the macro-economic situation in the next couple of years must begin with an analysis of the fiscal situation. At this time, however, the data required are not available; obtaining accurate data will be very difficult because the GOP has been operating without a formal budget during the last two years. An IMF team is expected to arrive in Panama third week of January 1990 and it is expected additional data will be available then. At that time, AID could work on the detailed formulation of an ESF assistance program. Table 1 provides rough orders of magnitude of the fiscal situation, and this data will be modified when better numbers become available.

Two scenarios were analyzed for 1990: a scenario without international support, where Panama does not meet its international obligations to the international donor community and to the commercial banks; and a scenario where Panama clears its arrears to the IFIs, negotiates a debt rescheduling under the auspices of the Paris Club, and begins negotiations with the commercial banks for a debt reduction program under the Brady Plan. It is expected that a commercial debt reduction program could provide greater debt service relief than recently negotiated debt reduction programs, such as the one for Costa Rica.

2. Scenario I: No External Assistance and no External Debt Payments:

Given likely public sector revenue and expenditures (cash basis), and no debt service payments to any external creditor, the consolidated public sector would have a surplus of \$138 million in 1990 (Table 1). Additionally, the GOP's frozen assets in the U.S. are about \$300 million and therefore cash available to the GOP in 1990 would be \$438 million. Using the frozen funds and the surplus, the GOP could reduce its floating debt with the private sector and it could reduce its overdrafts with the BNP, thus increasing liquidity in the economy. A very rough estimate would be \$230 million for these two items. A program of \$208 million for incremental investment in the public sector and/or for a credit program for the private sector would provide additional stimulus to the economy.

TABLE I

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	
				IMF	GOP/ AID
Revenue					
General Government					
Central Government	1057	569	564	563	692
Social Security Agency	386	336	339	371	352
Decentralized Agencies	60	35	39	35	33
Operating Balance of SOE	150	113	134	149	130
Total Revenue	1653	1053	1075	1118	1207
Current Expenditures					
Central Government	950	962	937	884	850
Social Sec. Agency	449	426	442	465	475
Decentralized Agencies	96	86	69	71	71
Total Current Expenditures	1495	1474	1447	1420	1396
Capital Expenditures					
Capital Expenditures	211	81	78	80	80
Cons. Public Sector Balance	-53	-501	-450	-381	-268
Balance of Uncons. P.S.	3	28	12	4	4
Public Sector Balance	-51	-473	-438	-378	-264
Statistical Discrepancy	5	4	0	0	0
Public Sector Bal. Adjusted	-45	-469	-438	-378	-264
Financing					
External (Net)	-32	9	-3	0	0
Arrears					
External Interest	6	352	385	402	402
Domestic (Private Sector)	0	108	24	0	0
National Bank	71	-1	23	0	0
Total Financing	45	469	430	402	402
Financing Balance Without Program (gap-)	0	0	-8	25	138

NOTES TO TABLE I

Assumptions used for the fiscal projections:

The starting point were the projections of the Article IV Report by the IMF. The following assumptions were used:

Central Government Revenue: IMF projections were reduced by 10% to reflect the revenue losses that would result from the intervention, and \$185 million were added as an estimate of the fiscal effect of lifting the U.S. sanctions.

Social Security Agency and Decentralized Agencies Revenue: These were reduced by 5% from the IMF projections.

Operating Surplus of State Owned Enterprises: Reduced to a level similar to 1988.

Current Expenditures: Estimates by the GOP. They take into consideration the positive fiscal effects of the change in government, and the increased expenditures that will result from the loss of inventory, etc. These figures are very rough and are subject to major modifications.

3. Scenario II. External Debt Payments to IFIs and External Assistance:

Scenario II analyzes what would happen if the GOP were to clear all its obligations with the IFIs. The arrears to IFIs are \$536 million, and principal and interest payments due in 1990 are about \$240 million. Therefore, the assistance package that would result in the same cash flow to Panama as Scenario I would have to be equal to \$776 million. If the arrears are cleared, it would be possible for the IMF, World Bank and IDB to disburse in 1990 about \$250 million, and therefore the level of additional assistance from other donors that would result in the same cash flow to Panama would be \$526 million. Given the urgent need to inject liquidity in the economy, a minimum balance of payments support program for 1990 would require more than \$500 million of assistance from bilateral donors and the likely upward limit for the IFIs of \$250 million of support from the IFIs. This figure is a rough order of magnitude and subject to major revisions as new data become available. An ESF program of \$500 million and other bilateral donor support of \$100 million probably would be the minimum requirement for 1990.

Scenario II would give access to Panama to IFI finance and could pave the way for a debt reduction program with the commercial banks. Additional finance (beyond \$526 million) would permit a more expansionary program.

The payment of arrears to IFIs could be made with a payment of \$150 million by Panama, a \$250 million bridge loan, and \$136 from bilateral donors. The IFI's would eventually provide program assistance of \$250 million to repay the bridge loan.

The most urgent need is to obtain more accurate figures of the fiscal situation for 1990 and to make projections for 1991. By 1991, it could be expected that the IFI's can begin to provide net resource transfers

(net disbursements would exceed interest payments). At the same time, the GOP could reduce its current expenditures while revenues would increase as the economy is reactivated in current expenditures. Even with this optimistic scenario, additional program assistance from bilateral donors will probably be required.

4. Use of Funds for an Economic Recovery Program in 1990

FY 90 ESF funds could be used in part to pay IFI arrears, to finance a portion of the government's investment budget on a sectoral basis, and in part to provide additional liquidity to the private sector. Should AID agree to finance a portion of the investment budget, it could be conditioned on reaching agreement with the government on sectoral priorities and levels. AID should not enter into financing specific items in the investment budget because of the management implications.

5. Conditionality

The GOP began a structural adjustment program in 1984 that reduced industrial and agricultural protection but that did not improve the efficiency of the public sector. An economic assistance program to Panama should be conditioned on measures designed to reduce the size of the public sector and increase its efficiency. The present government has expressed its willingness to begin a structural adjustment program with major emphasis on measure designed to increase public sector efficiency. Some of the areas for discussion are:

Privatization: Several state-owned enterprises such as the sugar mills and the national airline could be nationalized. The efficiency of port operation could be improved significantly with a system of leasing areas of the ports to the shipping companies.

Financial Management in the Public Sector: Financial management must be strengthened considerably. This would require policy decisions as well as technical assistance.

Efficiency of State-Owned Enterprises and Financial Institutions: AID and World Bank financed studies identified key measures to improve the efficiency of institutions such as IRHE, BDA and the ENP. Implementation of some of those measures should be considered.

Social Security Agency: The social security agency has a cash deficit and an actuarial deficit that may exceed \$500 million. The implementation of measures to reduce the deficit were contained in SAL II but were never implemented.

Price Controls: Price controls, which were eliminated as part of the structural adjustment program, were reintroduced. These controls should be eliminated again.

Most of these economic measures were discussed in the economic agenda of the present government. An implementation calendar should be prepared expeditiously.

Commercial Debt Reduction Program

If Panama eliminates its arrears to the IFIs and reschedules with the Paris Club, a next step would be to begin negotiations with the commercial banks on a debt restructuring program designed to reduce the commercial debt to a level that could be serviced. The Panamanian debt, which was trading at 10% of par value before December 20 1989, is now trading at 20% of par value. Given the extraordinary circumstances affecting Panama today, it seems possible that the authorities could negotiate a debt reduction program that could result in significant debt relief.

B. Follow-on Project Assistance

The team recommends that the composition of a prospective AID project portfolio in the period after the Immediate Recovery Program include areas of activity which support: a) strategy to reactivate the Panamanian economy through the private sector, complemented by restructured and leaner government apparatus and conditioned on measures to reduce the size and increase the efficiency of the public sector; and b) a strategy to strengthen Democratic Institutions.

Projects which support the first strategy would include a continuation and deepening of a Technical Assistance Support Fund and a Project in the area of Non-Traditional Export Development Finance. A program of about \$200 million of ESF and DA would be required in 1991. A previously authorized \$25 million HG project (525-HG-013) would also support that strategy. This project, which is designed to work exclusively through and with the Panamanian private sector, could help accelerate the reactivation of the mortgage banking and construction industries.

Projects which support the second strategy would include program activities in the area of Administration of Justice and Democratic Initiatives. The latter could assist local governments to be more responsive to their constituencies. Also, through the continuation of the CAPS program, AID could continue exposure of future leaders to democratic institutions through long and short-term training in the U.S.

Additionally, the program would include two areas of special interest: a Drug Awareness program and an Environmental/Natural Resources program. Finally, trade finance has become more difficult in the last couple of years, and therefore, a guarantee program through T.C.I.P. could be very useful in the short term.

A portfolio with this configuration could be managed with a small staff. Areas such as Population, Health and Education (beyond CAPS) should

not be included because these areas are generally more management intensive, other donors will likely reinitiate projects in these areas and importantly, initiating these types of projects imply a long term commitment by AID.

VI. A.I.D. OPERATIONAL AND STAFFING

A. Staffing

DEVAFO - The A.I.D. presence before the crisis

In December 1987, the Noriega regime requested the closure of the A.I.D. Mission. The Mission was closed with a small contingent left to oversee an orderly closeout of the portfolio and continuation of a handful of training activities unrelated to the Panamanian government. One A.I.D. FSO remained with a staff of seven FSN's until last Summer. This Development Affairs Office (DEVAFO) was attached to the Economic Section of the Embassy and operated out of a commercial suite of offices. Four A.I.D. vehicles were sent for safe-keeping with USAID/Costa Rica which also became the Accounting station for Panama.

December 1989/January 1990

Shortly after the December 20th military intervention, OFDA staff from San Jose arrived in Panama to assist in emergency relief operations. Their principal role at this time is the oversight of the Displaced Persons Center at a reverted hangar on Albrook Air Station. The Center is managed through a grant to the Panamanian Chamber of Commerce covering costs for a 90-day period, although it will likely require extension.

Following high level visits by the Acting Administrator and the Acting AA/LAC, a small policy-level group and then a technical team arrived. The latter, consisting of 5 USDH and one USPSC worked with the new government and the private sector during the 2nd week of January to prepare this report. An additional AID officer arrived last week as part of a joint State/AID Justice team to survey the Justice Sector.

As of January 15, two USDH and the USPSC remain in Panama completing arrangements for initiation of the Immediate Recovery Program. At this juncture, they are scheduled to remain until the end of the month only. GC/LAC, the Regional Contracts Officer (Guatemala) and the Controller in San Jose are prepared to go to Panama o/a January 21st to assist in the initiation of the program. In addition, the RIG in Tegucigalpa is planning to arrive January 21st to develop an audit plan for the Immediate Recovery Program.

Beyond 1 February 1990

The new Government of Panama has asked that A.I.D. reopen its Mission in Panama and has formally withdrawn the letter sent by Noriega's

Foreign Minister in December 1987 ordering the closing of the Mission. During his out to Panama, the Acting Administrator announced that the United States had agreed to reopen the USAID. Decisions should be taken in the near future as to when A.I.D. should formally reopen, whether it should be a full Mission or an A.I.D. Office a la Belize, the size of the USDH and FN staff, appropriate delegations of authority, etc. From decisions on the content of the overall program and staffing must flow decisions on appropriate office-space, housing, vehicles, administrative support staff and OE budget levels. Specific recommendations on Mission staffing for the longer term are provided further below.

Meanwhile, decisions must be taken on staffing to implement the Immediate Recovery Program over the next three to four months until permanent staff are in place. The TDY staff, who must be in place before the end of January, in many cases should match up along occupational specialty lines with the planned permanent staff. There may be some variation. The TDY staff should be a team which stays for the entire time until permanent staff arrive and not be a revolving door string of short term TDYs which would seriously disrupt implementation. The TDY team envisaged would consist of:

- Team Leader
- Program Officer (PDO)
- Economist
- Private Sector Officer
- Housing Officer
- Project Manager (Engineer PSC?)
- Controller
- Executive Officer

the program could be determined by TDYs / Team Leader

AOJ

Shorter term TDYs from GC and the Regional Contracts Officer will be essential and, depending on the findings of the AOJ team, an AOJ Officer may be needed to oversee regional project activity and develop follow-on bilateral assistance. The Executive Officer's role will be to plan administration support for the reopened AID Mission.

Organizing the A.I.D. Mission/Office:

Our operating assumption is that the reopening of A.I.D. in Panama implies neither the reinstatement of the former program nor the level/mix of staff that went with it. What we propose is a staffing level and composition commensurate with the tasks we foresee and the accountability essential in a new program of this magnitude, at least in the initial year or two. These recommendations, of course, are preliminary. Decisions taken in the days ahead on resource allocation and program strategy may alter them. The recommendations are skeletal, dealing only with USDH staff. FNDH and contractor staffing judgments will follow:

With these caveats, we propose a USDH staff initially of 7 persons:

- AID Representative or Director
- Program Officer/PDO
- Economist
- Private Sector Officer
- AOJ Officer
- GDO
- Controller

We regard this as a base minimum USDH staff, based on a set of assumptions, some of which may not hold up. For example, there is no Housing Officer included although we propose the El Chorrillo housing activity as a major element of the Recovery package which will extend beyond the first 3 or 4 months and possibly be followed by another HIG. The assumption is that the Private Sector Officer will be capable of overseeing housing activity with the help of a PSC and occasional RHUDO TDYs. Similarly, there is no Engineer although the Employment Public Works component will run for at least a year. We assume an excellent FSN with US PSC help will be sufficient. While we recommend that AID not plan involvement in traditional areas such as Health and Population and only tangentially in Agriculture, we do foresee activity in scholarship programs, Environment/National Resource Management, Export Development and Finance, and Drug Awareness emerging in the first and second years. The centerpiece of the program will be policy-based program assistance to establish the bases for long-term economic growth and to provide critical financial support to the new Government.

The sooner the "permanent" staff arrives the better, but it should be in place by mid-May to take over from the TDY team. To the extent that the TDYers can be the same people, it would be ideal. However, arrival of the TDY team cannot be delayed in search of this ideal.

I. VIVIENDA PARA LAS FAMILIAS DESPLAZADAS DEL CHORRILLO.

A. Antecedentes

Los combates, los cuales tuvieron su inicio a la media noche del 20 de diciembre de 1989 en el Cuartel Central de las Fuerzas de Defensa de Panamá, ubicado en el Corregimiento del Chorrillo de Panamá, así como los subsiguientes fuegos de origen indeterminado y el saqueo en el área, dejaron a unas 1,800 familias sin hogar, obligando la evacuación de unas 450 familias adicionales de aquellos edificios que fueron dañados, pero que están estructuralmente íntegros y podrán ser reocupados, una vez se reparen. El Gobierno de los Estados Unidos recibió el 8 de enero de 1990, una petición de parte del Gobierno de Panamá de proporcionar ayuda para contribuir a cumplir con las necesidades de vivienda de las familias desplazadas.

B. Meta, Propósito

1. Meta

La meta de este componente es la de consagrarse a las necesidades de las familias cuyas viviendas en el Corregimiento del Chorrillo de Panamá fueron destruidas o dañadas por el conflicto y por los fuegos y saqueos que se dieron como consecuencia en el área.

2. Propósito

El propósito de este Proyecto es el de complementar y apoyar los esfuerzos de las familias desplazadas para resolver sus propias necesidades de vivienda al proporcionarles ayuda directa e inmediatamente.

I. HOUSING FOR DISPLACED FAMILIES FROM CHORRILLO.

A. Background

Fighting which began at midnight on December 20, 1989 at the Headquarters of the Panama Defense Forces located in the Chorrillo District of Panama, as well as subsequent fires of undetermined origin and pillaging in the area, left approximately 1,800 families homeless and forced the evacuation of an additional 450 families from buildings which were damaged but are structurally sound and can be reoccupied once repaired. The U.S. Government received a request on January 8, 1990 from the Government of Panama to provide assistance to help meet the housing needs of the displaced families.

B. Goal, Purpose

1. Goal

The goal of this component is to address the housing needs of the families whose existing housing in the Chorrillo district of Panama was destroyed or damaged by the fires and pillaging.

2. Purpose

The purpose of this Project is to complement and support the efforts of the displaced families to address their own housing needs by providing assistance to them directly and immediately.

C. Beneficiarios

La destrucción y daños en el Chorrillo afectaron una variedad de tipos de vivienda comunes en el área. En total, 106 estructuras fueron destruidas o dañadas. Cinco eran iglesias. Las demás le proporcionaban techo a numerosas familias. Las más comunes eran los edificios de madera inicialmente construidos para albergar a las personas que trabajaron en la construcción del Canal de Panamá. Cincuenta y cinco (55) de tales edificios, algunos de los cuales tenían ya, hasta veinticinco años de haber sido condenados, fueron destruidos por los fuegos, así como lo fueron otros veinticuatro (24) en iguales condiciones pésimas, pero que no habían sido formalmente condenados. También fueron destruidos unos dieciocho (18) edificios conocidos como "barracas" o "casas comunitarias", las cuales habían servido de vivienda "provisional" por varios años, para familias reubicadas desde otras partes del Chorrillo como parte del proceso de renovación urbana en el área. Un edificio de renovación urbana fue severamente dañado. Tres (3) torres de quince pisos en un complejo denominado "24 de diciembre" fueron dañadas, pero pueden ser rehabilitadas.

Los beneficiarios del programa propuesto son las familias desplazadas de estos edificios, en la actualidad estimados de la siguiente manera:

Destruídos/Destroyed:

Tipo de Vivienda/Housing Type

Edificios originales de madera/Original wooden buildings
Viviendas "Provisionales"/"Temporary" housing
Edificios de renovación urbana/Urban renewal building
Sub-Total

Familias/
Families

1,395
355
50
1,800

Dañados/Damaged:

"24 de diciembre"/"December 24"

450

Total de Beneficiarios/Total Beneficiaries

2,250

C. Beneficiaries

The destruction and damage in Chorrillo affected a variety of housing types common in the area. Altogether 106 structures were destroyed or damaged. Five were churches. The rest provided housing for numerous families. The most prevalent by far were the wooden buildings initially constructed to house persons working on the construction of the Panama Canal. Fifty-five (55) such buildings, which had been condemned as early as twenty-five years ago, were destroyed by the fires, as were twenty-four (24) others in equally-poor condition, but not formally condemned. Also destroyed were eighteen (18) buildings known as "barracas" or "casas comunitarias", which had served as "temporary" housing over several years for families relocated from other parts of Chorrillo as part of the ongoing urban renewal process in the area. One urban renewal building was severely damaged. Three (3) fifteen-story towers in a complex called "24 de Diciembre" were damaged but can be rehabilitated.

The beneficiaries of the proposed program are the families displaced from these buildings, currently estimated as follows:

D. Ayuda a Proporcionar

1. Principios Generales

Consistente con el propósito de este Proyecto, cada familia cuyo hogar en el Chorrillo fue destruido, será libre de decidir por sí sola, cómo quiere resolver sus necesidades de vivienda. La ayuda será proporcionada directamente a cada familia para una vivienda ubicada en cualquier parte de Panamá, siempre y cuando ésta se convierta en el sitio habitual de residencia de la familia. El Proyecto está diseñado para permitir la gama más amplia de opciones, con tal que éstas resulten representar una solución duradera a las necesidades de vivienda de la familia. Estas opciones incluyen soluciones para aquellas familias que estén dispuestas a esperar la reconstrucción del Chorrillo, y puedan sufragar las comodidades disponibles, aquellas que deseen aprovechar una unidad de vivienda "estándar" a través del proyecto y aquellas que quieran mudarse a casas nuevas o ya existentes disponibles en el mercado de la vivienda.

Las unidades de vivienda que pueden ser rehabilitadas estaban ocupadas por sus dueños. Estos edificios y apartamentos serán rehabilitados sin costo alguno para los dueños, y los fondos serán proporcionados bajo un convenio de donación aparte.

2. Ayuda a las Familias

Cada familia cuyo hogar en el Chorrillo fue destruido, recibirá una donación como ayuda de hasta \$6,500 bajo el Proyecto, para la compra de una casa o apartamento bajo una de las cuatro opciones.

El concepto de la opción en lo referente a las soluciones de

D. Assistance to be provided

1. General Principles

Consistent with the purpose of this Project, each family whose home in the Chorrillo was destroyed will be free to decide for itself how it wants to resolve its housing needs. Assistance will be provided directly to each family for housing located anywhere in Panama as long as it is to become the habitual place of residence of the family. The Project is designed to allow the widest possible range of options, as long as they result in a lasting solution to the family's housing needs. These options include solutions for those families who are willing to wait for the reconstruction of Chorrillo, and can afford the available accommodations, those who wish to avail themselves of a "standard" housing unit to be arranged through the Project, and those who want to move into newly-built or existing homes available through the housing market.

The housing units which can be rehabilitated were owner-occupied. These buildings and apartments will be rehabilitated at no cost to the owners, with funding provided under a separate project grant agreement.

2. Assistance to the families

Each family whose home in El Chorrillo was destroyed will receive grant assistance of up to \$6,500 under the Project toward the purchase of a house or apartment under one of four options.

The concept of choice in housing solutions is consistent with

vivienda es consistente con las perspectivas y preferencias de las familias. Se le proporcionará asistencia idéntica a cada grupo familiar que residía junto como un sólo hogar en el Chorrillo. Las recomendaciones para un "menú" de cuatro opciones directas se basan en el resultado de entrevistas para determinar las preferencias de la población y en las alternativas realmente disponibles dentro de un presupuesto nominal de \$6,500 disponibles para cada una de las 1,800 familias estimadas, hasta ahora.

El proyecto, al ofrecer cuatro opciones básicas a cada familia, tiene las siguientes ventajas:

- Estimular las iniciativas y esfuerzos de las familias para que escojan o encuentren soluciones viables y satisfactorias a sus necesidades.

- Agregar el suministro de nuevas viviendas para llenar las nuevas necesidades y el estímulo de la revitalización del sector privado.

- Establecer (por medio de la Opción B) una comparación uniforme con la cual los participantes del programa puedan juzgar muchas otras opciones.

- Proporcionar flexibilidad por medio de una combinación de propuestas. Al no depender de un sólo planteamiento, se facilita la ejecución del proyecto, las necesidades individuales son satisfechas y se moviliza un número mayor de elementos económicos en el mercado.

- Alentar a las familias que tienen acceso a crédito adicional o a otros recursos, para mejorar más aún, el tiempo de entrega, calidad, tamaño o ubicación de la opción "estándar", mientras se permite que aquellos que

the families' perspectives and preferences. Identical assistance will be provided to each family group who were residing together as a single household in Chorrillo. The recommendations for a 'menu' of four straight-forward options is based on the results of interviews to determine the population's preferences and on the alternatives realistically available within a nominal budget of \$6,500 available for each of the currently estimated 1,800 families:

The Project, in offering four basic options to each family, has the following advantages:

- Encouraging the initiatives and efforts of the families to choose or to find viable and satisfactory solutions to their needs.

- Adding to the supply of new housing to meet new needs and stimulating the revitalization of the private sector.

- Establishing (through Option B) a standard of comparison against which the program participants can judge many other options.

- Providing flexibility through a combination of approaches. By not relying on only one approach, project implementation is facilitated, individual needs are met and a larger number of economic elements in the market are mobilized.

- Encouraging families who have access to additional credit or other resources to further improve on the 'standard' option's time of delivery, size, quality or location; while permitting those who choose the

escojan ésta, agreguen cuartos adicionales o de otra forma mejoren su lote sobre la marcha como lo permitan sus propios recursos.

a. Opción A - El Chorrillo

La familia puede comprar un apartamento en el Chorrillo en un edificio nuevo (similar a otros construidos aquí, por el Ministerio de Vivienda), el cual probablemente demorará unos dos años en terminarse. Las familias que escojan esperar, tendrán que hacer sus propios arreglos para tener viviendas provisionales.

El costo estimado por unidad es de \$12,000. La donación de \$6,500 cubrirá parte de los costos. El balance sería financiado. Esto requeriría que los beneficiarios tuvieran empleos a tiempo completo, los cuales los harían idóneos para recibir una hipoteca por el saldo, con pagos mensuales estimados en \$60.

Aceptación y Capacidad

Potencial: 10% (180 familias, en cuatro edificios de renovación urbana, con capacidad para 48 familias cada uno).

b. Opción B: Lote con Unidad Básica - Opción "Estándar"

La familia puede escoger una casa "estándar" de bloques de concreto en un lote completamente servido en uno o más sitios de aproximadamente 24 m² de construcción y 110 m² de terreno. La producción de estas casas se concertará a través del proyecto. Estas casas serán similares en tamaño y especificaciones a las unidades básicas del MIVI/USAID construidas en años anteriores, en el área de San Miguelito. (El Gobierno de Panamá permitirá excepciones en la aplicación de las normas de construcción si ello es necesario). De hecho, es el

standard to add additional rooms or otherwise improve their lot over time as their own resources permit.

a. Option A - El Chorrillo

The family may purchase an apartment in Chorrillo in a new building (similar to others the Ministry of Housing has constructed there), which will likely take one to two years to complete. Families who choose to wait will have to make their own provision for interim quarters.

The estimated unit cost is \$12,000. The \$6,500 grant would cover part of the costs. The balance would be financed. This would require that beneficiaries have fulltime employment which would qualify them to assume a mortgage for the balance, with estimated monthly payments of \$60.

Potential acceptance and qualification: 10% (180

families, in four urban renewal buildings, which house 48 families each).

b. Option B: Lot with Basic Unit - "Standard Option"

The family may choose a standard concrete block house on a fully-serviced lot in one or more sites of approximately 24 m² of construction and 110 m² of land. The production of these houses will be arranged through the Project. These houses will be similar in size and specifications to the MIVI/USAID unidad básica (basic unit) houses constructed in earlier years in the San Miguelito area. (The Government of Panama will provide, if necessary, waivers to building code standards.) In fact, it is the \$6,500 purchase price of this standard which determines

precio de compra de \$6,500 de este modelo, lo que determina la cuantía de la donación a la cual cada familia tendría derecho.

Esta es la opción "estándar" en el sentido de que estaría disponible a corto plazo y su costo será cubierto enteramente por la donación. En adelante, las familias pagarán solamente sus cuentas mensuales de electricidad y de agua. Esta opción permitiría y alentaría futuras mejoras en el hogar hechas por la misma familia por cuenta propia. Este "estándar" proporcionaría una base o punto de referencia con el cual la familia puede comparar la conveniencia relativa de las muchas posibilidades disponibles bajo las opciones "A" y "C" y "D".

Aceptación Potencial: 40%
(720 familias).

c. Opción C: Opción
Iniciativa Individual.

Esta opción va dirigida a las familias que no desean utilizar las opciones antes mencionadas y quienes sienten que les puede ir mejor (en cuanto a tiempo, calidad y ubicación), con compras individuales o con la construcción de una vivienda. También abarcará familias que habían encontrado una vivienda permanente antes del inicio del Proyecto. La familia recibirá una donación por un monto de hasta \$6,500 que será desembolsado al momento de la compra o contra los costos de construcción. El valor de la unidad se verificará a través de un avalúo.

Esta opción abre un número virtualmente ilimitado de soluciones de auto-ayuda y de mercado. Arreglos de tipo de arrendamiento no serán permitidos.

Bajo esta opción, la familia podría comprar la unidad de su

the amount of the grant to which each family would be entitled.

This is the "standard" option in that it will be available in the short-term and its cost covered fully by the grant. The families would thereafter pay only the monthly electric and water bills. This option would permit and encourage future improvements in the home by the family at its own expense. This "standard" would provide a basis or point of reference with which the family can compare the relative desirability of the possibilities available under Options 'A' and 'C' and 'D'.

Potential acceptance: 40%
(720 families)

c. Option C: Individual
Initiative Option

This option enables the families who do not wish to avail themselves of the previous options and who feel they can do better (in time of delivery, quality or location) or their own in individual purchases or construction of a home. It also will cover families who had already found a permanent home before the start of the Project. The family will receive a grant of up to \$6,500, which will be disbursed at the time of purchase or against costs of construction. The value of the unit will be verified through an appraisal.

This option opens up virtually unlimited number of self-help and market solutions. Rental arrangements are not permitted.

Under this option, the family might purchase a unit of its

coogencia entre casas nuevas o
xistantes, o apartamentos, utilizando
su donación de hasta \$6,500, más
cualquier recurso adicional que pueda
mobilizar.

Aceptación Potencial: 40%
(720 familias).

d. Opción D: Ancianos y otras
Familias Dependientes.

Para asegurar que las familias
crónicamente dependientes, entre las
cuales estarían algunos individuos de
edad madura y lisiados, sean asistidos
apropiadamente, se conseguirá los
servicios de la Iglesia y organi-
zaciones voluntarias. La suma de
hasta \$6,500 estaría disponible para
cada unidad familiar y esto sería
suficiente para cumplir con las
necesidades de tales familias. La
familia puede ser asistida simple-
mente, a través de la inclusión en
Opciones A, B y C o la Iglesia o
alguna otra organización voluntaria
puede idear una Opción D (por ejemplo,
para aquellos que requieran un cuidado
institucionalizado). Esta opción sería
para los casos verdaderamente necesi-
tados, los cuales no caben fácilmente,
en cualquiera de las opciones
anteriores.

Necesidad Potencial: 10% (180
familias).

e. Familias que no se deciden
por una Opción dentro de
los 90 días

Aquellas familias que no
toman decisiones dentro de los noventa
(90) días después de la firma del
Convenio del Proyecto para encontrarle
una solución duradera a sus necesidades
de vivienda recibirán asistencia
intensiva e individual por 30 días
adicionales. Después de ese período,
si parece que una familia no esté
dispuesta a tomar una acción para

choice from existing or new houses or
apartments, using the up to \$6,500
grant plus any additional resources it
can mobilize.

Potential acceptance: 40%
720 families)

d. Option D: Elderly and
other Dependent Families

To insure that chronically
dependent families, among which would
be some of the elderly and handicapped,
are appropriately assisted, the
services of church and voluntary
organizations will be enlisted. The
sum of up to \$6,500 would be available
for each family unit and would be
sufficient to meet the needs of such
families. This family may be assisted
simply through inclusion in Options A,
B, and C or a church or other
voluntary organization may devise an
Option D (for example, for those who
require institutionalized care). This
option would be for truly needy cases
which do not fit readily in any of the
previous options.

Potential Need: 10% (180
families)

e. Families that do not decide
on an Option within 90 days

Those families who do not
take decisive steps within ninety (90)
days of the signing of the Project
Agreement to find a lasting solution
to their housing needs will receive
intensive, individual assistance for
up to an additional 30 days. After
that period, if it appears that a
family is unwilling to take action to
achieve home-ownership, the case will

adquirir su vivienda propia, el caso será referido al Comité de Apelaciones (Ver Sección G.3). El Comité de Apelaciones, revisará el caso y hará una recomendación final dentro de los 30 días siguientes. Si las familias rehúsan aceptar la recomendación del Comité, serán declaradas como no elegibles para recibir ayuda del proyecto.

3. Crédito

Bajo todas las opciones, las familias que califican podrán tener acceso a un préstamo de hasta \$7,000 a través de la participación de bancos y de la Caja de Ahorros financiado con el existente Proyecto de Garantía de Vivienda de Panamá No. 525-HG-012. En el presente, tales préstamos se ofrecían al 10.5% por 20 años. Estos términos se ajustarán para reflejar las condiciones presentes del mercado. Estos financiarían costos en exceso de la donación de \$6,500 en cualquiera de las cuatro opciones para familias en capacidad de y dispuestos a cumplir con los pagos de estos préstamos, incluyendo:

- El precio de un apartamento nuevo en el Chorrillo en la Opción A.
- Mejoras a la casa "estándar" en la Opción B.
- La compra o construcción de una casa o apartamento bajo la Opción C.
- El costo de una vivienda especial arreglada a través de la Opción D.

E. Operación del Proyecto

1. Administración del Proyecto.

La Caja de Ahorros será la institución responsable en la ejecución

be referred to the Appeals Committee (See Section G.3). The Appeals Committee will review the case and make a final recommendation within 30 days. If families refuse to act on the recommendation of the Committee they may be declared ineligible for assistance under the project.

3. Credit

Under all of the options, families who qualify may have access to loans of up to \$7,000 through participating banks and the Caja de Ahorros, funded under the existing Panama Housing Guaranty Project 525-HG-012. Currently, such loans would be offered at 10.5% for 20 years. These terms will be adjusted to reflect current market conditions. They will finance costs in excess of the grant of \$6,500 in any of the four options for families able and willing to meet the loan payments, including:

- The price of a new apartment in Chorrillo in Option A.
- Improvements to the "standard" house in Option B.
- The purchase or construction of a house or apartment under Option C.
- The cost of special housing arranged through Option D.

E. Operation of the Project

1. Project Management

The Caja de Ahorros will be the institution responsible for the

del Proyecto. El Gerente General de la Caja nombrará a tiempo completo un Administrador del Proyecto quien será responsable de:

- Desarrollar y mantener un plan de trabajo general para la ejecución del Proyecto.

- Asignar tareas específicas y funciones en marcha a las varias instituciones ejecutoras.

- Coordinar los esfuerzos de estas instituciones.

- Identificar soluciones prontas para los problemas que surjan durante la ejecución del Proyecto.

- Asegurar la entrega oportuna de todos los informes requeridos por este Convenio.

Cada institución ejecutora, así como también, la ONG, nombrará a una sola persona para que sirva de enlace entre la Caja de Ahorros y el Administrador del Proyecto.

2. Asistencia Técnica y servicios de apoyo.

! Este proyecto depende fuertemente de las iniciativas y esfuerzos de las familias para escoger o de encontrar soluciones viables y satisfactorias a sus necesidades de vivienda. Sin embargo, no todas las familias entenderían necesariamente todos los aspectos técnicos, financieros y legales de cada una de las cuatro opciones. Unos cuantos, en particular los mayores, que viven solos, pueden requerir extenso apoyo.

Una organización no gubernamental (ONG) proporcionará, mediante un convenio de cooperación, los siguientes servicios a las familias desplazadas:

implementation of the Project. The General Manager of the Caja will appoint a full-time Project Manager who will be responsible for:

- Developing and maintaining an overall work plan for the implementation of the Project.

- Assigning specific tasks and on-going functions to the various implementing institutions.

- Coordinating the efforts of these institutions.

- Identifying prompt solutions to problems which arise during Project implementation.

- Assuring timely submission of all reports required by this Agreement.

Each implementing institution, as well as the NGO, will appoint a single person to serve as liaison with the Caja de Ahorros and the Project Manager.

2. Technical assistance and support services

This Project relies heavily on the initiatives and efforts of the families to choose or to find viable and satisfactory solutions to their housing needs. However, not all of the families will necessarily understand all of the technical, financial or legal aspects of each of the four options. A few, particularly the elderly who are living alone, may require extensive support.

Under a Cooperative Agreement, a non-governmental organization (NGO) will provide the following services to the displaced families:

- Información acerca de dónde y cómo obtener la donación y ayuda.

- Asesoramiento sobre los aspectos técnicos, financieros o legales de cada una de las opciones.

- Información recibida de los promotores u otros oferentes de casas o apartamentos disponibles en el mercado.

- Ayuda en la movilización de esfuerzos especiales por parte de organizaciones voluntarias o comunitarias para afrontar las necesidades de grupos particulares que requieran apoyo extenso, tales como las personas ancianas.

- Ayuda individual a aquellas familias que no toman acción decisiva por su propia cuenta dentro del plazo de noventa (90) días.

- Informes al Ministerio de Vivienda y a la Caja de Ahorros acerca de los problemas identificados durante la ejecución del proyecto.

3. Comité de Apelaciones.

Las normas que rigen el Proyecto necesitan ser sencillas para que sean fáciles de entender por las familias desplazadas. Además, existe la necesidad de ser flexible y la disposición a considerar una amplia gama de opciones que atiendan las necesidades de las familias. El Proyecto ha diseñado cuatro opciones con las que se espera cubrir la gran mayoría de los casos. Para lidiar con peticiones no anticipadas o con las quejas, se creará un Comité de Apelaciones compuesto de individuos de reconocida integridad. El Comité tendrá 3 ó 5 miembros nombrados por el MIPFE. Una función importante del Comité será la de transmitir una

- Information on where and how to obtain assistance.

- Advice on technical, financial or legal aspects of each of the options.

- Information received from developers or other offerers of houses or apartments available in the market.

- Assistance in mobilizing special efforts by voluntary or community organizations to address the needs of particular groups requiring extensive support, such as the elderly.

- Individual assistance to those families who do not take decisive action on their own within ninety (90) days.

- Feedback to the Ministry of Housing and to the Caja de Ahorros on problems identified during the implementation of the Project.

3. Appeals Committee

The rules governing the Project need to be kept simple so that they are easily understood by the displaced families. There is also a need for flexibility and a willingness to consider a wide range of options which serve the needs of the families. The Project has been designed around four options which are intended to cover the vast majority of the cases. To deal with unanticipated requests or with any complaints, an Appeals Committee will be created, composed of private individuals of known integrity. The Committee will have 3 members or 5 members, named by MIPFE. An important function of the Committee will be to convey a notion

noción de imparcialidad y equidad en la ejecución del Proyecto.

El Comité será crítico en tres etapas del Proyecto:

- En la revisión y resolución de disputas acerca de quién es elegible para participar, esto es, quiénes son las familias desplazadas.

- Decidir si las propuestas específicas de las familias, particularmente bajo la Opción C constituyen una solución duradera a sus necesidades de vivienda.

- Haciendo las recomendaciones finales a las familias elegibles que no hayan tomado una decisión dentro del período de 90 días.

En el desempeño de estas funciones, el Comité será apoyado por la asesoría e información obtenida del MIVI, la Organización No Gubernamental (ONG) y especialmente por representantes escogidos por las mismas familias.

4. El Ministerio de la Vivienda

El Ministerio de la Vivienda tendrá la responsabilidad inicial de producir la lista de familias elegibles.

5. Ejecución del Proyecto

a. Paso 1: El Ministerio de la Vivienda (MIVI) elaborará una lista preliminar de las familias elegibles para participar en el Proyecto. Al hacer esto, el MIVI hará uso, no solamente de su propia información, sino también, la proporcionada por otros, como la de la parroquia Católica local del Chorrillo. La lista preparada por el MIVI identificará el cuarto o apartamento específico en El Chorrillo

of impartiality and fairness in the implementation of the Project.

The Committee will be critical at three stages of the Project:

- reviewing and resolving disputes about who is eligible to participate, i.e. who the displaced families are.

- deciding whether particular proposals put forward by the families, particularly under Option C, constitute a lasting solution to their housing needs.

- making final recommendations for eligible families who have not elected a solution within the 90-day time period.

In carrying out these functions, the Committee will be supported by advice and information obtained from MIVI, the NGO, and especially by selected representatives of the families themselves.

4. The Ministry of Housing

The Ministry of Housing will have the initial responsibility for developing the list of eligible families.

5. Project Implementation

a. Step 1: The Ministry of Housing (MIVI) will develop a preliminary list of the families eligible to participate in the Project. In doing so, MIVI will use not only its own information but also that provided by others, such as the local Catholic parish in El Chorrillo. The list prepared by MIVI will identify the specific room or apartment in El Chorrillo which each family occupied and will provide the name and identity

ocupado por cada familia y proporcionará el nombre y número de la cédula de identidad personal de no más de dos personas que actuarán (conjuntamente, si son dos) en representación de la familia.

b. Paso 2: El MIVI publicará su lista preliminar, y de otra forma la pondrá a disposición del público en general, para permitir a las personas interesadas, presentar reclamos acerca de personas no elegibles incluidas en la lista y de personas elegibles dejadas por fuera.

c. Paso 3: Los nombres que no hayan sido objetados formarán parte de la lista definitiva de familias idóneas. El Comité de Apelaciones fallará sobre los reclamos después de escuchar a las partes interesadas. Los nombres aceptados por el Comité se agregarán a la lista definitiva.

d. Paso 4: A medida que los nombres se vayan incluyendo en la lista definitiva de familias elegibles, el MIVI enviará a la Caja de Ahorros, la que empezará a recibir y llenar solicitudes de las familias para las opciones particulares que ellas hayan seleccionado, y se preparará para abrir una cuenta familiar individual en la que su donación para la vivienda sea depositada. La lista certificada de cuentas de la Caja de Ahorros será entonces, presentada a la A.I.D. como base para la solicitud de desembolso. La A.I.D. desembolsará a la cuenta de la Caja de Ahorros en el Banco Nacional de Panamá. (Ver Sección 8. Pago para detalles sobre el procedimiento del pago). La Caja procederá inmediatamente a depositar la cantidad correspondiente en las cuentas individuales de los beneficiarios como se indica más adelante.

e. Paso 5: La donación prevista para cada familia será

card number (cedula) of not more than two persons who will act (jointly if two) in representation of the family.

b. Step 2: MIVI will publish its preliminary list, and otherwise make it available to the public at large, to allow interested persons to present claims about ineligible persons included in the list or eligible persons missing from it.

c. Step 3: All names not challenged will become part of the definitive list of eligible families. The Appeals Committee will adjudicate all claims after hearing all the interested parties. The names accepted by the Committee will be added to the definitive list.

d. Step 4: As names are included in the definitive list of eligible families MIVI will forward them to the Caja de Ahorros which will begin to receive and complete applications from the families for the particular options which they have selected, and will prepare to open an individual family account in which their housing grant will be deposited. The certified list of accounts from the Caja de Ahorros will then be presented to A.I.D. as the basis for a request for disbursement. A.I.D. will disburse to the account of the Caja de Ahorros in the Banco Nacional de Panamá. (See Section E, 8. PAYMENT for details on the payment process.) The Caja will proceed immediately to deposit the corresponding amount in the individual beneficiary accounts, as indicated below.

e. Step 5: The grant provided to each family will be placed

colocada en una cuenta individual libre de intereses. La familia recibirá una libreta (la cual no es transferible ni negociable) como evidencia de la donación, pero solamente podrá retirar fondos de la cuenta para pagar la compra o para la construcción de una vivienda. Aquellos que elijan regresar al Chorrillo (Opción A) o comprarle una casa a un promotor (Opciones B y C) firmarán una carta de compromiso u opción, confirmando su decisión. Los fondos serán desembolsados directamente al vendedor. Los costos de cierre y otros gastos incurridos al titular la propiedad serán pagados por la Caja.

Para las Opciones C y D, a medida que las familias encuentren una solución individual a sus necesidades de viviendas o éstas sean resueltas a favor de ellas, presentarán la documentación pertinente a la Caja de Ahorros. Un ingeniero o un arquitecto empleado por la Caja de Ahorros dirigirá una inspección física para verificar la información de los documentos y preparará un avalúo de la propiedad. Las familias podrán presentar sus documentos en cualquier sucursal de la Caja de Ahorros. Sin embargo, el documento, más los resultados de la inspección en el campo y el avalúo serán enviados a las oficinas principales para la revisión y aprobación final.

f. Paso 6. Si se encuentra todo en orden, la Caja de Ahorros impartirá instrucciones para el desembolso de la cuenta e instruirá a la sucursal que recibió los documentos, sobre la forma de pagar la donación de vivienda. Se cerrará la cuenta del Proyecto del beneficiario y los fondos sobrantes que no se hayan utilizado, serán reembolsados a la cuenta separada establecida en el Banco Nacional de Panamá (BNP) por la Caja de Ahorros (Ver párrafo 6). La

in an individual non-interest bearing account. The family will receive a passbook (which is non-transferable and non-negotiable) as evidence of the grant, but will only be able to draw down funds from the account to pay for either the purchase or for construction of a home. Those who choose to return to Chorrillo (Option A) or to buy a home (Option B and C); will sign a letter of commitment or option confirming their decision. The funds will be disbursed directly to the seller. Closing costs and other expenses incurred in providing a title will be paid by the Caja.

For Options C and D, as the families find an individual solution to their housing needs or as these are arranged on their behalf, they will present the relevant documentation to the Caja de Ahorros. An engineer or architect employed by the Caja de Ahorros will conduct a physical inspection to verify the information in the documents and prepare an appraisal of the property. The families will be able to present their documents at any branch of the Caja de Ahorros. However, the document, plus the results of the field inspection and the appraisal will be sent to the central offices for final review and approval.

f. Step 6: If everything is in order, the Caja de Ahorros will issue instructions to disburse from the account and will instruct the branch office which received the documents how to pay out the housing grant. They will close the beneficiary's Project account and return any remaining, unused funds to the separate account established in the Banco Nacional de Panamá (BNP) by the Caja (see Paragraph 6 below). Use of these funds shall be decided

Caja de Ahorros elaborará un informe mensual mostrando el movimiento de todas las cuentas de las familias beneficiarias del Proyecto. El informe también describirá las viviendas compradas por las familias con la donación.

6. Cuenta Separada

La Caja abrirá una cuenta aparte en el Banco Nacional de Panamá a la cual la A.I.D. pagará todas las sumas que se acreditarán a las cuentas individuales familiares. Estos fondos no serán mezclados con otros fondos. Esta cuenta separada no ganará intereses. A medida que cada familia complete su compra de vivienda, la Caja cerrará la cuenta individual del beneficiario y reembolsará inmediatamente el saldo no gastado, de haberlo, a la cuenta establecida en el Banco Nacional por la Caja de Ahorros. Cada uno de dichos reembolsos irá acompañado de una lista con los números de cuentas, nombres y saldos reembolsados.

7. Costos Administrativos de la Caja

Para cubrir los costos administrativos de la Caja, la A.I.D. acuerda pagarle a la Caja un honorario fijo de \$50.00 al abrir la cuenta de cada familia beneficiaria.

H. Pago

Para abrir las cuentas de las familias beneficiarias, de las cuales surge un Pasivo de parte de la Caja, la Caja debe por ley, poseer el Activo correspondiente, que en este caso, serán fondos en efectivo. Por lo tanto, cuando los fondos de la A.I.D. sean pagados a una cuenta de la Caja en el Banco Nacional de Panamá (BNP) para permitir a la Caja abrir las cuentas de los beneficiarios, este pago será tratado como un desembolso,

mutually by AID and the Caja. The Caja de Ahorros will produce a monthly report showing the movement in all Project beneficiary family accounts. The report will also describe the housing purchased by the families with the grant.

6. Separate Account

The Caja shall open a separate account at the Banco Nacional de Panama into which AID shall pay all amounts to be credited to the individual family accounts. These funds shall not be commingled with any other funds. This separate account shall be non-interest bearing. As each family completes its housing purchase, the Caja shall close the individual beneficiary account and immediately refund the unspent balance, if any, to the separate account. Each such refund shall be accompanied by a list of account numbers, names, and refunded balance.

7. Caja Administrative Costs

To cover the Caja's administrative costs AID agrees to pay the Caja a fixed fee of \$50 when each beneficiary family account is opened.

8. Payment

In order to open the beneficiary family accounts, which give rise to a liability on the part of the Caja, the Caja must, by law, possess a corresponding asset, which, in this case, will be funds in cash. Therefore, when the AID funds are paid to the separate account of the Caja in the BNP to enable the Caja to open the beneficiaries' account this payment will be treated as a disbursement, not an advance, on AID's accounts. AID

no un adelanto sobre las cuentas de la A.I.D. La A.I.D. hará tales desembolsos, al recibir los siguientes documentos:

a. Un formulario estándar 1034, acompañado por una factura o carta de la Caja, solicitando un pago contra la lista, dando los nombres de los beneficiarios, sus números de cuenta, y las cantidades a ser depositadas en cada cuenta. La solicitud de la Caja irá acompañada de una certificación con el siguiente formato:

El suscrito, por este medio certifica que el pago de la suma reclamada bajo el Convenio es apropiado y pagadero bajo los términos del Convenio y/o sus enmiendas, que el reembolso apropiado a la A.I.D. se hará oportunamente, al ser solicitado en el evento de que no se permitan ciertos costos no reembolsables, bajo los términos del Convenio y/o sus enmiendas; que la información dada en el informe fiscal es correcta y sustentada por los registros, facturas y recibos de Contabilidad, y que tal información adicional de apoyo que la A.I.D. pueda razonablemente requerir, será proporcionada a solicitud del recipiente, a la A.I.D.

Por _____
Título _____
Fecha _____

b. Una carta firmada por el Ministro de la Vivienda (MIVI) aprobando la lista de pagos.

c. Una carta del Oficial del Proyecto de la A.I.D. aprobando la lista de pagos.

d. Las solicitudes de desembolsos serán presentadas al Contralor de la USAID/San José, a cuenta de la USAID/Panamá.

will make such disbursements upon receipt of the following documents:

a. A Standard Form 1034 accompanied by an invoice or letter from the Caja requesting payment against a list giving the names of the beneficiaries, their account numbers, and the amounts to be deposited into each account. The Caja's request shall be accompanied by a certification as follows:

The undersigned hereby certifies that payment of the sum claimed under the Agreement is proper and due under the terms of the Agreement and or Amendments; that appropriate refund to A.I.D. will be made promptly upon request in the event of disallowance of costs not reimbursable under the terms of the Agreement and or Amendments; that information on the fiscal report is correct and supported by accounting records, invoices and receipts; and that such additional supporting information as A.I.D. may reasonably require will be furnished by the Recipient to A.I.D. upon request.

By _____
Title _____
Date _____

b. A letter signed by the Minister of Housing approving the payments list.

c. A letter from the A.I.D. Project Officer approving the payments list.

d. Disbursement requests shall be submitted to the Controller, USAID/San José, c/o USAID/Panama City.

Con el fin de minimizar el tiempo entre la presentación de las listas y la apertura de las cuentas, y entrega de las libretas a los beneficiarios, la A.I.D. pagará a la cuenta separada de la Caja en el Banco Nacional de Panamá vía Transferencia Electrónica de Fondos. La Caja proporcionará con su primera solicitud de pago, las instrucciones para la transferencia electrónica de fondos, dando el nombre del tenedor, el nombre del banco, la dirección del banco, el Código (de nueve dígitos) de la Asociación Bancaria Americana del Banco, y el número de cuenta del tenedor en el banco.

La A.I.D. pagará los costos administrativos de la Caja, según queda acordado en la Sección 7, arriba. La Caja facturará a la A.I.D. todos estos costos separándolos de las sumas para acreditar a las cuentas familiares individuales.

Las solicitudes para el pago de la suma fija de \$50 estarán respaldadas por una lista de los nombres de los tenedores de cuentas y números de cuenta.

Todas las solicitudes de pago irán acompañadas del formulario estándar 1034 y de una certificación como la que se muestra en la Sección H.1.

Todas las solicitudes de pago serán enviadas al Contralor de la USAID/San José, a cuenta de la USAID/Panamá.

F. Auditos Especiales

La revisión limitada de auditoría y de auditoría financiera coincidentes de las instituciones ejecutoras, las cuales reciben fondos bajo el Proyecto y determinan la idoneidad de los beneficiarios, serán

In order to minimize the time between the submission of the lists and the opening of the accounts and delivery of the passbooks to the beneficiaries, A.I.D. will pay to the Caja's EFP separate account via Electronic Funds Transfer. The Caja shall provide with its first payment request instructions for the electronic funds transfer giving the Payee's name, the Bank name, the Bank address, the Bank's American Banking Association (ABA) Code (nine digits), and the payee's account number at the Bank.

AID shall pay the administrative costs of the Caja as agreed in Section 7, above. The Caja shall invoice AID for these costs separately from the amounts for credit to the individual family accounts.

Requests for payment of the \$50 fixed amount shall be supported by a list of account holder names and account numbers.

All payment requests shall be accompanied by a Standard Form 1034 and a certification as shown in Section H.1.

All payment requests shall be submitted to Controller, USAID/San Jose, c/o USAID/Panama City.

F. Special Audits

Limited audit surveys and concurrent financial audits of the implementing institutions, which receive funds under the project and determine eligibility of beneficiaries, will be conducted under an A.I.D.

efectuadas bajo un contrato de cantidad indefinida de la A.I.D. con una firma de auditores afiliada en los Estados Unidos. La Oficina del Inspector General de Auditoría en Tegucigalpa proporcionará supervisión para tales auditorías. Las instituciones ejecutoras convienen ejecutar cualesquiera recomendaciones que resulten del áudito como una condición para recibir fondos adicionales bajo el programa. Los fondos para la revisión de los áuditos serán administrados directamente por la A.I.D.

contract with a U.S. affiliated audit firm. Office of the Regional Inspector General/Audit/Tegucigalpa will provide supervision for such audits. The implementing institutions agree to implement any recommendations resulting from the audit surveys as a condition to receiving further funding under the program. Funds for the audit surveys will be administered directly by A.I.D.

G. Cuadro de Métodos de Ejecución y de Financiamiento

G. Chart of Methods of Implementation and Financing

Los métodos de ejecución y financiamiento se resumen en el siguiente cuadro:

The implementation and Financing Methods are summarized in the following chart:

<u>ACTIVIDAD/ ACTIVITY</u>	<u>METODO DE EJECUCION IMPLEMENTING METHOD</u>	<u>AGENCIA EJECUTORA/ IMPLEMENT- ING AGENCY</u>	<u>METODO DE FI- NANCIAMIENTO/ FINANCING METHOD</u>	<u>AMOUNT (\$000)</u>
-Ayuda a las familias/ Assistance to families	Según Convenio HB3 Anexo 1/Per HB3 Agreement - Annex I	Caja de Ahorros	Pago Directo/ Direct pay	12,164
-Costos Administrativos/ Administrative costs	Según Convenio HB3 Anexo 1/Per HB3 Agreement - Annex I	Caja de Ahorros	Pago Directo/ Direct pay	90
-Asesor del Proyecto/ Project Advisor	Contrato Directo AID/ AID Direct contract	AID	Pago Directo/ Direct pay	55
-Auditoría/ Audits	Contrato Directo/AID Direct Contract	AID	Pago Directo/ Direct pay	80
-Servicios para familias desplazadas/ Services to displaced families	Convenio de Cooperación HB con la ONG/HB 13 Cooperative Agreement with NGO.	AID	Pago Directo/ Direct pay	200

H. Informes

El Administrador del Proyecto en la Caja de Ahorros presentará a la A.I.D. un informe mensual mostrando el movimiento en la cuenta de cada familia, así como una descripción mostrando el tamaño de la casa y el lote, y el valor según avalúo, de la solución permanente de la vivienda escogida por cada familia. El informe indicaría también, los otros recursos utilizados por cada familia, incluyendo el financiamiento obtenido del Proyecto de Garantía de Vivienda 525-HG-012.

Tales informes debieran continuar hasta que se hayan cerrado todas las cuentas. En tal momento, el Administrador del Proyecto presentará una recapitulación de los resultados obtenidos de todo el Proyecto, suministrando la misma información incluida en los informes mensuales.

I. Financiamiento del Proyecto

El gasto más grande bajo este Proyecto será la donación de ayuda proporcionada a las familias para la compra o construcción de una unidad que proporcionará una solución duradera a sus necesidades de vivienda. Estos gastos son de dos tipos:

1. La donación de hasta \$6,758 por familia, incluyendo las siguientes cantidades:
 - \$6,500 para pagar la vivienda.
 - \$ 238 para pagar los costos de cierre y de título de la propiedad, como sigue:
 - hasta \$160 para el título de la propiedad.
 - 1 1/2% del precio de venta (hasta \$98) para avalúos, inspección y otros costos de cierre.

H. Reporting

The Project Manager in the Caja de Ahorros will submit to A.I.D. monthly a report showing the movement in the account of each family, as well as a description, showing size of house and lot and appraised value, of the permanent housing solution chosen by each family. The report should also indicate other resources used by the family, including financing obtained from Housing Guaranty Project 525-HG-012.

The reports should continue until all the accounts have been closed. At such time, the Project Manager will present a recapitulation of the results obtained in the entire Project, providing the same data included in the monthly reports.

I. Project Financing

The single largest expenditure under this Project will be the grant assistance provided to the families toward the purchase or construction of a unit which will provide a lasting solution to their housing needs. These expenditures are of two types:

1. The grant of up to \$6,758 per family comprising the following amounts:
 - \$6,500 to pay for the housing;
 - \$ 258 to pay for closing costs and titling, as follows:
 - up to \$160 for titling.
 - 1-1/2% of the sales price (up to \$98) for appraisals, inspection, and other closing costs.

2. Un honorario fijo de \$50 por cuenta pagadero a la Caja para cubrir sus costos de contabilidad administrativa y de informes.

2. A fixed fee of \$50 per account payable to the Caja to cover its administrative accounting and reporting costs.

El financiamiento adicional para el Proyecto será proporcionado como sigue:

Additional Project financing will be provided as follows:

- \$55,000 para financiar un Asesor Residente del Proyecto con un contrato de servicios personales directamente con la A.I.D.

- \$55,000 to fund a Resident Project Advisor under a Personal Services Contract directly with A.I.D.

- \$ 80,000 para financiar la auditoría requerida.

- \$30,000 to fund the required audit.

J. Resumen del Plan Financiero
(Totales y Sub-totales en
dólares US\$000)

J. Summary Financial Plan
(Totals and Sub-Totals in US
\$000s)

ACTIVIDADES ADMINISTRATIVAS DE LA CAJA DE AHORROS/CAJA DE AHORROS
ADMINISTERED ACTIVITIES

Cuentas Familiares Individuales/Individual Family Accounts

Vivienda/Housing	\$6,500	
Título de propiedad/Titling	160	
Avalúos, Inspec./Appraisals, Inspec.	98	
TOTAL CADA CUENTA/TOTAL EACH ACCOUNT		
\$6,758 x 1,800 Familias/Families		12,164

SUB-TOTAL DE CUENTAS FAMILIARES INDIVIDUALES/
SUB-TOTAL INDIVIDUAL FAMILY ACCOUNTS

12,164

Administración/Administration

Honorario Fijo/Fixed fee (1,800 accounts x \$50)	90	
SUB-TOTAL ADMINISTRACION/SUB-TOTAL ADMINISTRATION		90

SUB-TOTAL ACTIVIDADES ADMINISTRADAS POR LA CAJA
DE AHORROS/SUB-TOTAL CAJA DE AHORROS ADMINISTERED
ACTIVITIES

12,254

ACTIVIDADES ADMINISTRADAS POR LA AID/
AID ADMINISTERED ACTIVITIES

Asesor del Proyecto/Project Advisor	55	
Convenio Cooperativo-ONG/ Cooperative Agreement NGO	200	
Auditorías/Audits	80	

SUB-TOTAL ACTIVIDADES ADMINISTRADAS POR LA AID/SUB-TOTAL AID ADMINISTERED ACTIVITIES		335
TOTAL DEL PROYECTO/PROJECT TOTAL		589
MAS FONDOS DE OTROS CONVENIOS/PLUS FUNDED FROM OTHER AGREEMENTS		
Rehabilitación de Urgencia del Edificio 24 de Diciembre/Emergency Rehabilitation of 24 December Building	2,500	
Garantía de Vivienda/Housing Guaranty 525-HG-012	3,250	
GRAN TOTAL/GRAND TOTAL		18,339
CONTINGENCIA/CONTINGENCY		1,036

COMPONENTE DE TRABAJO DE EMERGENCIA

A. Antecedentes

La economía de Panamá ha venido declinando desde 1987. Los sucesos recientes relacionados con la caída del General Noriega agravó más la situación, dejando a muchas personas desempleadas y sub-empleadas.

Al mismo tiempo, el Gobierno de Panamá enfrenta el serio deterioro de la infraestructura básica en las áreas urbanas y rural. Ciertas infraestructuras se han deteriorado al punto en que es peligroso que el público las use. En las áreas urbanas, las necesidades mayores son la restauración de los servicios públicos básicos y las redes de avenidas y calles. La mayoría del mantenimiento periódico y preventivo para esta estructura ha sido diferido durante los últimos años.

El Gobierno de Panamá reconoce la necesidad de tomar acción inmediata, pero no puede embarcarse, en programas sin ayuda externa, lo cual no parece llegar en forma rápida a otros donantes.

B. Descripción del Componente

1. Meta

El componente Empleo de Emergencia tiene tres metas que se apoyan entre sí: a) la generación de trabajo, b) ayuda a la reactivación de la moribunda industria de la construcción e industrias asociadas; y c) la reparación, mantenimiento y rehabilitación o reemplazo de la deteriorada infraestructura económica de la nación.

II. EMERGENCY EMPLOYMENT COMPONENT

A. Background

Panama's economy has been in sharp decline since late 1987. Recent events in connection with the ouster of General Noriega further aggravated the situation, leaving many persons unemployed and underemployed.

At the same time, the GOP faces serious deterioration of the basic infrastructure in both the urban and rural areas. Some infrastructure has nearly deteriorated to the point where it is dangerous for the public to use. In urban areas, the major needs are the restoration of basic public services and avenues and streets networks. Most preventive and periodic maintenance for this infrastructure has been deferred over the past several years.

The GOP recognizes the need for immediate action, but is not able to embark on a meaningful program without external assistance, which is unlikely to come quickly from other donors.

B. Component Description

1. Goal

The Emergency Employment Component has three mutually supporting goals: a) the generation of employment, b) the reactivation of the moribund construction and associated industries, and c) the repair, maintenance, rehabilitation or replacement of the nation's deteriorated economic infrastructure.

PRELIMINARY

2. Propósito

El propósito de este proyecto es el de emplear una porción de la fuerza laboral desocupada para el trabajo en la reparación, mantenimiento y rehabilitación o construcción de infraestructuras.

3. Descripción General de Actividades

Los más atractivos objetivos para la inversión en generación de empleos en Panamá son los proyectos pequeños de trabajo que requieren el mínimo diseño o preparación para la pre-construcción. Énfasis en el mantenimiento, rehabilitación y mejoramiento de la infraestructura existente en vez de nuevas construcciones.

Los proyectos de trabajo típicos incluirán actividades: 1) reparación de calles, y mejoramiento de sus respectivos drenajes que mejorarán el transporte y la comunicación, esenciales al comercio, industria, y el turismo, 2) acondicionamiento y limpieza de los sistemas de alcantarillados que responden a las necesidades básicas de salud; 3) mantenimiento, reparación y mejoramiento de escuelas públicas; 4) reforestación y manejo de parques nacionales y áreas de las montañas; y 5) la renovación de un edificio público para ser sede de la Corte Suprema de Justicia.

Los proyectos de trabajo bajo esta actividad típicamente emplearán de 50 a 100 personas por un tiempo aproximado de 5 meses. Los trabajadores no especializados ganarán salarios mínimos que fluctuarán entre \$0.25 y \$1.70 por hora más beneficios, dependiendo de la tarea a realizar. Los trabajadores especializados y el personal supervisor ganarán algo más

2. Purpose

The purpose of this Project component is to hire a portion of the unemployed workforce to work on the repair, maintenance, rehabilitation or reconstruction of infrastructure.

3. General Description of Activities.

The most attractive targets for investment in employment generation in Panama are small work projects which require minimal design or preconstruction preparation with emphasis on maintenance, rehabilitation and upgrading of the existing infrastructure rather than new construction.

Typically, work projects will include: 1) street repairs, and related drainage improvements which will enhance transportation and communication essential to industry, tourism, and commerce; 2) realignment and cleaning of storm drainage and sewerage systems which respond to basic health needs; 3) the maintenance, repair and upgrading of public schools; 4) reforestation and management of national parks and watershed areas; and 5) the renovation of a public building to serve as headquarters for the Supreme Court.

Work projects under this activity will typically employ from 50-100 people, for a duration of approximately five months. Unskilled workers will earn minimum wages, ranging from \$1.25 to \$1.70 per hour plus benefits depending on the task to be performed. Skilled laborers and supervisory personnel will earn somewhat more depending on their

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endiendo de sus especialidades, habitualmente alrededor de \$2.40 la hora más beneficios. La gran mayoría de los beneficiarios serán bajadores no especializados.

specialties, perhaps around \$2.40 per hour plus benefits. The large majority of the beneficiaries will be unskilled laborers.

Los resultados serán aproximadamente 40 actividades de obras públicas, 68 escuelas renovadas, proyectos de reforestación y conservación en Parque Nacional, 50 proyectos de desarrollo comunitario de autoayuda, reforestación en las riberas del canal y la rehabilitación de un edificio en la antigua Zona del Canal, para la Corte Suprema de Justicia.

The outputs will be approximately 40 public work activities, 68 schools renovated, 50 self-help community development projects, reforestation in the Canal Watershed, and the rehabilitation of a building in the former Canal Zone for the Supreme Court.

Descripciones de cada uno de estos sub-componentes se detallan adelante.

Descriptions of each of these sub-components are provided below.

4. Descripción detallada de los sub-componentes

4. Detailed Description of Sub-components

a. Ministerio de Obras Públicas

a. Ministry of Public Works

Los siguientes proyectos han sido programados para ejecutarse en forma tentativa:

The following projects are tentatively programmed to be implemented:

Ciudad de Panamá/City of Panamá

15 proyectos de reparación de calles/15 street repair projects	\$1.5 Millones/Million
7 proyectos de mejoras y limpieza de canales de desagüe de crecidas/projects improving and cleaning flood canals	1.5 Millones/Million
6 proyectos de mejoras y limpieza de colector de aguas pluviales de la ciudad/projects improving and cleaning city storm drains	.5 Millones/Million
2 proyectos de mejoras en las carreteras. Interamericana y Transisthmica/projects of improvements on the Panamerican and Transisthmian Highways	.5 Millones/Million

Colon

10 proyectos de reparación y mejoras de calles/projects of street repairs and improvements	\$1.0 millones/Million
TOTAL/TOTAL	\$5.0 millones/million

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Estos proyectos que pretende ejecutar el Ministerio de Obras Publicas bajo contratación con las empresas privadas de construcción se estima que fluctuarán entre \$25,000 y \$150,000, dependiendo de su magnitud y duración.

These projects, which the Ministry of Public Works intends to execute through contracts with private construction firms, are estimated to fluctuate between \$25,000 and \$150,000, depending on their magnitude and duration.

b. Ministerio de Educación

El Ministerio de Educación contratará las firmas constructoras privadas para llevar a cabo reparaciones generales de las siguientes escuelas propuestas. Los contratos fluctuarán en valor entre \$15,000 y \$40,000.

Colon	- 15 escuelas/schools	\$ 225,000
Panama City	- 28 escuelas/schools	\$ 425,000
San Miguelito	- 25 escuelas/schools	\$ 350,000
TOTAL/TOTAL.....		\$1,000,000

b. Ministry of Education

The Ministry of Education plans to contract private construction firms to make general repairs of the following proposed schools. The contracts will range in value between \$5,000 and \$40,000.

c. Corte Suprema

Se renovará un edificio viejo en el área revertida de la Zona del Canal, con el propósito de que sea el lugar permanente de la Corte Suprema de Justicia de Panamá.

Total: \$300,000

d. Actividades de ANCON

Se co-financiarán dos actividades a través de la Asociación Nacional para la Conservación de los Recursos Naturales (ANCON), una institución privada de Panamá sin fines de lucro. ANCON llevará a cabo un pequeño proyecto de reforestación y demarcación en el Parque Nacional Soberanía. La Sociedad ANCON contribuirá con por lo menos \$100,000 de fondos privados.

Total \$270,000

c. Supreme Court

An old building in the reverted Canal Zone will be renovated for the purpose of becoming the permanent place for the Supreme Court of Panama.

Total \$300,000

d. ANCON Activities

Two activities will be financed through the National Resources Conservation Association (ANCON), a non-profit private institution. ANCON will undertake a small reforestation and park demarcation project in the Soberanía National Park. The ANCON Association will contribute at least \$100,000 of private funds.

Total: \$270,000

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e. Actividades de Desarrollo Especial (SDA)

Se ofrecerá asistencia a las unidades del Gobierno local, clubes Cívicos, y grupos comunitarios para complementar los recursos de la comunidad local y permitir la realización de pequeños proyectos tales como escuelas, carreteras, puentes peatonales, centros de salud, estructuras de irrigación, proyectos de agua potable, y otras actividades en las cuales las comunidades en sí contribuirían con terreno, mano de obra, materiales de construcción, y algo de dinero propio, así como sus ideas y capacidad organizativa. Normalmente ninguna comunidad será elegible para recibir más de \$8,000 al año a menos que la disponibilidad de fondos exceda la demanda popular. Este sub-componente será ejecutado por USAID/Panamá.

Total \$250,000

C. Componente del Proyecto

1. Roles y responsabilidades institucionales.

Debido a la naturaleza de urgencia del presente componente, es imperativo que las instituciones involucradas en la ejecución de este proyecto se esfuercen al máximo para facilitar y agilizar sus funciones respectivas; por ejemplo: el Gobierno de Panamá acordó permitir un proceso de contratación acelerado para usarlo durante este período de emergencia. Los roles de las diferentes instituciones serán proporcionados a continuación:

a. Sector Público: La agencia coordinadora del proyecto dentro del Gobierno de Panamá será el

e. Special Development Activities

Assistance will be offered to local government units, service clubs, and community groups to complement local community resources and permit the realization of small projects such as schools, roads, footbridges, health centers, irrigation structures, potable water projects and other such activities in which the communities themselves will contribute land, labor, local building materials and some cash of their own as well as their ideas and organizational capacity. Normally, no community will be eligible to receive more than \$8,000 per year unless the availability of funds exceeds popular demand. This sub-component will be implemented by USAID/Panama.

Total \$250,000

C. Component Implementation

1. Institutional roles, and responsibilities.

Because of the emergency nature of this component, it is imperative that the institutions involved in implementation exert their utmost to facilitate and expedite their respective functions; i.e. the GOP has agreed to allow an accelerated contracting process to be used during this emergency period. The role of the various institutions is provided below:

a. Public Sector: The component implementing agency within the GOP will be the Ministry of Public

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Ministerio de Obras Públicas (MOP). El MOP: 1) identificará los proyectos de trabajo dentro de sus áreas de responsabilidad que llenen los criterios de selección de proyectos; 2) coordinará con el Ministerio de Educación (MDE) y la Corte Suprema de Justicia para identificar los proyectos de renovación los cuales también deben llenar los criterios de selección de proyectos; 3) preparará en su caso y coordinará con los otros (Ministerio de Educación y Corte Suprema de Justicia) los alcances de trabajo, especificaciones detalladas y los documentos de licitación para construcción, que requiera el Ministerio de Hacienda y Tesoro (MHT), el cual manejará la materia de contratación y pago a los diferentes contratistas. Después del escogimiento y contratación de los contratistas por parte del Ministerio de Hacienda y Tesoro (MHT) el Ministerio de Obras Públicas (MOP) y el Ministerio de Educación (MDE) coordinarán la movilización y la partida inicial de cada uno de sus contratistas; supervisarán a sus contratistas durante la fase de la construcción y aprobarán los pagos de movilización y pagos por avances del trabajo así como también estarán a cargo de la inspección final de los proyectos y autorizarán los pagos finales. El MOP deberá nombrar un Gerente del Proyecto para llevar a cabo todas estas actividades de coordinación.

El MHT tendrá la responsabilidad de: 1) dirigir las licitaciones para las actividades de construcción y adjudicará los contratos; 2) proveerá los pagos de movilización a los contratistas; 3) hará los pagos parciales mensuales y los pagos finales a los contratistas; y 4) presentará para el reembolso las facturas a la USAID.

Works (MOP). MOP will: 1) identify work projects within its areas of responsibility which meet the project selection criteria, 2) coordinate with the Ministry of Education (MOE) and the Supreme Court of Justice to identify renovation projects which also must meet the project selection criteria, (3) prepare scopes of work, detailed specifications and the construction bid documents for the Ministry of Finance (MHT) which will handle the contracting and payment to the different contractors, (4) after the selection of the contractors by the (MHT), the Ministry of Public Works (MOP) and the Ministry of Education (MOE) will coordinate the payments for mobilization and payments for work progress, and will also be responsible for the final inspection and authorization of the final payments. In order to undertake all these coordination activities, the MOP will name a Project Manager.

The MHT will be responsible for the execution of contracts and paying the contractors. MHT will: 1) conduct bidding for construction activities and award contracts, 2) provide mobilization payments to contractors, 3) make monthly progress payments and final payments to contractors, 4) submit invoices to USAID for reimbursement.

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b. La Comunidad

La participación directa de la comunidad en este programa, en el sentido de la participación comunitaria organizada en el plan completo o fases de ejecución no está contemplada excepto en términos de aquellas actividades a ser financiadas como Actividades de Desarrollo Especial (SDA). En los proyectos SDA la participación de la comunidad y la movilización de recursos locales serán importantes. No obstante, los proyectos de trabajo a ser ejecutados aprovecharán la mano de obra local y descansarán sobre las instituciones comunitarias tradicionales para el reclutamiento de la fuerza laboral. Los efectos del ingreso en las comunidades que participan son importantes. Por lo tanto, se pondrá en práctica la utilización de la mano de obra de la comunidad donde el proyecto está ejecutándose.

c. ANCON

ANCON coordinará todas las actividades intensivas de trabajo dentro del sub-componente de la reforestación y conservación de los recursos naturales.

d. USAID

La USAID contratará los servicios de una firma A&E para fiscalizar las actividades de construcción con excepción de las actividades de ANCON y SDA. Estos servicios incluirán: 1) proveer asesoría técnica al MOP y al MDE en la preparación de los paquetes de licitación para construcción; 2) asistir al MDT en la evaluación de las propuestas de licitación para construcción y en la recomendación sobre las adjudicaciones; 3) hará

b. The Community

Direct community involvement in this program -- in the sense of organized community participation in the entire planning or implementation phases is not contemplated except in terms of those activities to be financed as Special Development Activities. In SDA projects, community participation and the mobilization of local resources will be substantial. Nonetheless, work projects to be implemented will largely take advantage of the local labor supply and will rely on the traditional community institutions for recruitment of the labor force. The income effects on participating communities is important. Therefore, labor to be employed will be from the community where the project is being implemented.

c. ANCON

Ancon will coordinate all labor intensive activities within the reforestation and conservation of natural resources sub-component.

d. USAID

USAID will contract for the services of an A&E firm to monitor the construction activities, with the exception of the ANCON and SDA activities. These services shall include: 1) provision of technical advice to MOP in preparation of bid packages, 2) assistance to MDT in evaluation of construction bid proposals and in recommendation on awards, 3) performance of on-site supervision as required to certify progress payments to the contractors,

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supervisiones en el lugar, como se requiere para certificar los pagos parciales a los contratistas; y 4) en conjunto con los Ministerios de Obras Públicas y Educación preparará los informes manuales para cada actividad de proyecto.

2. Criterios de Selección del Proyecto

1. Contenido de mano de obra local: No se financiará ningún proyecto de trabajo con menos del 40% mano de obra/relación de costo total. Se le dará prioridad a proyectos de trabajo con el mayor contenido de mano de obra.

2. Disposición para la ejecución: Los proyectos de trabajo que requerirán un mínimo o ningún diseño de pre-construcción ni trabajo de consultoría requerirán primera prioridad.

3. Producción de ingresos y/o mantenimiento del potencial de ahorro: Se considerará el alcance de los proyectos a medida que generen beneficios y el grado en el cual las inversiones, reduzcan los requerimientos posteriores de las reparaciones.

4. Prioridad del desarrollo y beneficio socio-económico: El mérito individual del proyecto o en la medida en la cual la actividad promueva otras políticas y programas del Gobierno de Panamá, también deben ser tomadas en consideración así como actividades del sector privado.

3. Beneficiarios

Los tres grupos principales escogidos para los proyectos de trabajo son: 1) el gran número de trabajadores panameños no

4) preparation of monthly status reports for each project activity.

2. Project Selection Criteria

1. Local Labor Content: No work project with less than 40% labor/total cost ratio will be financed. Work projects with highest labor content will be given priority.

2. Readiness for implementation: Work projects which require minimal or no preconstruction design or consulting work will receive first priority.

3. Revenue producing and/or maintenance saving potential: The degree to which the projects generate secondary or tertiary economic or financial benefits, and the extent to which investments reduce heavier repair requirements later on will be considered.

4. Development priority and socio-economic benefits: The individual merit of the project or the extent to which the activity furthers other GOP policies, programs, and private sector activities must also be taken into consideration.

3. Beneficiaries

The three primary target groups for the work projects are: 1) the large number of unskilled and semi-skilled Panamanians laborers who

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especializados y semi-especializados se están sub-empleados o desempleados en las ciudades de Panamá y Colón; 2) los establecimientos comerciales que proporcionarán materiales, equipo, maquinaria, herramientas, transporte, combustible requeridos para llevar a cabo los proyectos de trabajo; y, 3) la golpeada industria privada de la construcción la cual llevará a cabo las obras.

Se crearán aproximadamente 19,000 personas/días de trabajo y por lo menos 2,800 personas serán empleadas y recibirán ingresos adicionales como resultado directo de las actividades financiadas bajo este componente. Con el fin de extender los beneficios, a nadie se le debería permitir trabajar por más de un período de tres meses, y los contratistas privados deberán limitarse a no más de dos contratos.

Los beneficiarios secundarios serán las personas (el público en general) que se beneficiarán de la mejora general de la infraestructura y aquellos que se beneficiarán de las actividades económicas las cuales resultarán de las mejoras.

Mientras que la mayor parte del empleo generado por este componente es por costumbre realizado por hombres, gran parte del trabajo puede ser realizado por mujeres. Al mismo tiempo se le dará a las mujeres la posibilidad de participar. Esto es muy importante ya que las mujeres en Panamá son jefas de familia las únicas que devengan salario para el hogar.

D. Métodos de Ejecución y Financiamiento

El MOP es responsable por la administración técnica y el MHT por el ministro y administración fiscal del

are underemployed or unemployed in the cities of Panama and Colon, 2) the commercial establishments who will provide materials, equipment, machinery, tools, transportation and fuel required to carry out the work projects, and 3) the depressed private construction industry which will carry out the construction.

Approximately 219,000 person-days of employment will be created and at least 2,800 people will be employed and will receive income supplements as a direct result of the activities financed under this component. In order to spread the benefits, no one will be allowed to work more than a three-month period, and private contractors will be limited to not more than two contracts.

The secondary beneficiaries will be the people (the general public) who will benefit by the generally upgraded infrastructure and those who will benefit from economic activities which will flow from improvements.

While most direct employment generated by this component is customarily performed by men, much of the work can be performed by women. To the extent possible, women will be given the possibility to participate. This is very important as many women in Panama are both heads of the household and the sole income earners.

D. Methods of Implementation and Financing

MOP is responsible for the technical management and MHT for the procurement and fiscal management of

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Componente de empleos de emergencia. El Ministerio de Hacienda y Tesoro (MHT) ejecutará contratos con aproximadamente 65 contratistas para efectuar reparaciones a las calles y renovaciones en las escuelas. Las esferas de acción de los contratos serán suministrados por el Ministerio de Obras Públicas (MOP). La oficina de procedimientos del MHT licitará y adjudicará los contratos. El Ministro de Hacienda designará al signatario del contrato, él y el viceministro quedan excluidos. El MOP será responsable por la ejecución de los contratos y con el apoyo de la firma A&E efectuará supervisión de la construcción para asegurar que los contratistas están utilizando la mano de obra señalada en los contratos y que están cumpliendo con las especificaciones. El MHT también contratará asistencia provisional para contabilidad según se requiera para procesar los pagos y rendir cuentas del presupuesto de planillas. Podrán ser gastados por el MHT hasta la suma de \$10,000 de los fondos de esta ayuda.

Las facturas del contratista serán aprobadas por el MOP y certificadas por la firma A&E. Las facturas, entonces, serán enviadas al MHT para revisión y pago. Los cheques serán emitidos por el MHT. Serán firmados personalmente por el Ministro de Hacienda o el Viceministro, y por el Contralor.

El Gobierno de Panamá, expresamente autoriza a la AID para contratar y pagar directamente los servicios de una firma A&E, hasta la suma señalada en el plan financiero.

La AID adelantará fondos al MHT de la siguiente manera: el MHT estimará sus necesidades por los primeros 90 días. Las necesidades de los primeros 30 días serán pagadas a su cuenta en el BNP vía transferencia electrónica de fondos. Los pagos

the Emergency Employment Component. The Ministry of Finance and Treasury (MHT) will execute contracts with approximately 65 contractors to do street repairs and school refurbishing. Contract scopes will be furnished by the Ministry of Public Works (MOP). The MHT procurement office will bid and award the contracts. The Minister of Finance will designate the contract signer, he himself and the Vice-Minister are excluded. MOP will be responsible for the implementation of contracts and with the support of the A&E firm, perform construction supervision to assure that the contractors are employing the manpower called for in the contracts and that they are complying with specifications. MHT will also contract for temporary accounting help as needed to process payments and account for the employment fund. Up to \$10,000 of the fund may be spent by MHT for this assistance.

Contractor's invoices will be approved by MOP and certified by the A&E firm. The invoices will then be sent to MHT for review and payment. Checks will be issued by MHT. They will be signed personally either by the Minister of Finance or the Vice Minister, and by the Controller General.

The GOP expressly authorizes AID to contract and pay directly for the services of an A&E firm, up to the amount shown in the financial plan.

AID will advance funds to the MHT as follows. MHT will estimate its needs for the first 90 days. The first thirty days' needs will be paid into their account at the BNP via electronic funds transfer. Subsequent payments will be timed to arrive as

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Subsiguientes serán programados para llegar tal como sean requeridos. La oficina de pago será el Contralor en San José, Costa Rica.

MHT will file certified fiscal reports and 90 day advance projections every 30 days. The paying office will be Controller, San Jose, Costa Rica.

E. Auditoría

El Gobierno de Panamá expresamente autoriza a la AID para contratar y pagar a las firmas privadas de auditoría hasta la cantidad señalada para las auditorías en el Plan Financiero del Componente de Emergencia. La esfera de acción de tales auditorías pueden incluir todas las actividades financiadas bajo este componente. Conforme a esta autorización, la AID puede ejecutar uno o varios contratos con firmas de Contadores Públicos para servicios de auditoría. Tales firmas serán pagadas directamente por la AID. Todos los ministerios del Gobierno de Panamá involucrados acuerdan cumplir oportunamente con todas las recomendaciones de auditoría. Se proporcionará hasta la suma de \$30,000 para estos auditos.

E. Audits

The Government of Panama expressly authorizes AID to contract and pay to private auditing firms up to the amount shown for audits in the Emergency, Employment Component Financial Plan. The scope of such audits may include all the activities financed under this component. Pursuant to this authorization, AID may execute a contract or contracts with public accounting firms for audit services. Such firms will be paid directly by AID. All GOP ministries involved agree to comply promptly with all audit recommendations. Up to \$30,000 will be provided for these audits.

F. Cuadro de Ejecución y Método de Financiamiento

El cuadro siguiente resume los métodos de ejecución y financiamiento descritos anteriormente:

F. Chart of Implementation and Financing Methods

The following chart summarizes the methods of implementation and financing described above:

<u>ACTIVIDAD/ ACTIVITY</u>	<u>METODO DE EJECUCION/ IMPLEMENTING METHOD</u>	<u>MC/ AID</u>	<u>AGENCIA EJECUTORA/ IMPLEMENTING AGENCY</u>	<u>METODO DE FI- NANCIAMIENTO FINANCING METHOD</u>	<u>CANTI- DAD/ AMOUNT (\$000)</u>
Empleo de emergencia/ Emergency Employment	Según términos Anexo 1/Per terms Annex 1	MC	Ministry of Public Works/ Ministry of Finance and Treasury/MOP/ MHT	Pago directo con adelanto/ Direct Pay with Advance	\$6,300
Actividades con ANCON/ Activities with ANCON	Contrato directo AID/ AID direct Contract	AID	ANCON	Directo/ Direct	270

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SDA/Special Development Activities	AID	AID	AID	Directo/ Direct	250
Servicios A&E/A&E Services	Contrato directo AID/ AID direct contract	AID	AID	Pago directo/ Direct Pay	150
Auditos/ Audits	Contrato directo AID por RIG/Direct contract by RIG.	AID	AID	Directo	30

Los contratos del sector público cubrirán un período de cinco meses con dos pagos al mes por un total de 650 pagos. La firma A&E aprobará todas las facturas de los contratistas y verificará que los contratistas cumplan con las especificaciones técnicas y de mano de obra. El MHT establecerá un archivo de pago para cada contrato. Los auditores no federales verificarán los archivos de pago, probablemente sobre una base de muestra, para verificar que las facturas hayan sido aprobadas en la forma debida y que concuerden con los términos del contrato. Además, llevarán a cabo verificaciones en el campo para asegurar que el trabajo facturado haya sido realizado.

The Public Sector contracts will cover a period of 5 months with payments twice a month for a total of 650 payments. The A&E firm will approve all the contractor invoices, and verify that contractors meet the technical and manpower specifications. MHT will set up a payment file for each contract. The non-federal auditors will check the payment files, probably on a sample basis, to verify that invoices were properly approved and agreed with the contract terms. They will also carry out field checks to verify that the work billed was performed.

G. Plan Financiero del Componente
(\$000)

G. Component Financial Plan
(\$000)

Proyectos de Empleo (MOP)/Employment Projects (MOP)	6,300
a. MOP (\$5,000)	
b. MOP (\$1,000)	
c. Supreme Court/Corte Suprema (\$ 300)	
Actividades de ANCON/ANCON Activities	270
Actividades de Desarrollo Especial/Special Development Activities	250
Servicios A&E/A&E services	150
Auditos/Audits	30
Total.....	7,000

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III. COMPONENTE DE ASISTENCIA TÉCNICA
Y DE PRODUCTOS

A. Antecedentes

La intervención del régimen de Noriega, en toda la economía, asfixió al sector privado y produjo un sector público ineficiente, demasiado grande y altamente centralizado. El gobierno de Endara heredó instituciones públicas con la mínima cantidad o ninguna, de piezas de repuestos y equipo en un estado de desalineamiento crítico y con poco o ningún sistema contable.

El nuevo Gobierno de Panamá se encuentra comprometido con una reestructuración fundamental del papel de las agencias gubernamentales por medio de la apertura de la economía panameña, la privatización de empresas estatales, la eliminación del control del monopolio de varias industrias, el establecimiento de la responsabilidad dentro de los ministerios gubernamentales, la reinstauración de un sistema de auditoría que funcione en la Contraloría y en las agencias del gobierno, y el establecimiento de una burocracia más pequeña y eficiente. Estos y otros cambios de política propuesta aparejados con los efectos de la crisis económica actual, presentan una obra formidable para el Gobierno de Panamá.

B. Descripción del Proyecto

1. Meta, Propósito y
Objetivos

La meta de este sub-componente es la de ayudar al Gobierno de Panamá (GOP) a reactivar su economía. El propósito de este sub-componente es el de ayudar en la

III. TECHNICAL ASSISTANCE AND
COMMODITIES COMPONENT

A. Background

Intervention by the Noriega regime throughout the economy stifled the private sector and produced an inefficient, over-sized, and highly centralized public sector. The Endara government inherited public institutions with minimum or no spare parts and equipment, in critical disarray and with little or no system of accountability.

The new GOP is committed to a fundamental restructuring of the role of government agencies through the opening of the Panamanian economy, the privatization of state owned enterprises, the removal of monopoly control over various industries, the establishment of accountability within government ministries, the reinstatement of a functioning auditing system in the Contraloría and government agencies, and the establishment of a smaller, more efficient government bureaucracy. These and other proposed policy changes coupled with the effects of the current economic crisis pose a formidable task for the GOP.

B. Project Description

1. Goal, Purpose and
Objectives

The goal of this component is to assist the Government of Panama (GOP) to reactivate the economy. The purpose of this component is to assist in the urgent rehabili-

urgente rehabilitación y reestructuración de las agencias del sector público con el fin de establecer la estructura y estabilidad necesarias para la recuperación económica. Esto se logrará por medio de la provisión de asistencia técnica muy urgente, piezas de repuestos, equipo y materiales a las agencias gubernamentales principales.

El objetivo inmediato de este sub-componente es dual. Primero será proporcionar asistencia técnica especializada al Gobierno con el fin de iniciar los cambios antes mencionados y otros durante esta de transición clave hacia una democracia funcional. La asistencia técnica proporcionada será instrumental en ayudar al Gobierno a reestructurar las instituciones con el fin de proporcionar la confianza, la seguridad y la continuidad necesarias para la reactivación de la economía. El programa también ayudará a proporcionar piezas de repuestos, las cuales se necesitan con urgencia, equipo y materiales requeridos por las agencias gubernamentales principales, con el fin de mantener lo esencial, para los servicios públicos durante los próximos meses.

2. Sub-componente de Asistencia Técnica

a) Resumen de la Descripción

Mientras que no es posible proporcionar una lista completa y detallada de las necesidades de asistencia técnica a corto plazo del Gobierno de Panamá, lo siguiente proporciona breves descripciones de estos requerimientos con una base ilustrativa. La asistencia técnica será impulsada por la demanda, respondiendo así, a las necesidades inmediatas del Gobierno, durante un período de cinco meses. Descripciones

tation and restructuring of public sector agencies in order to establish the necessary structure and stability for economic recovery. This will be accomplished through the provision of urgently needed technical assistance, spare parts, equipment and materials to key government agencies.

The immediate objective of this component is two-fold. First will be to provide specialized technical assistance to the Government to initiate the above noted and other changes during this key transition to a functioning democracy. The technical assistance provided will be instrumental in helping the Government restructure its institutions to provide the confidence, security and continuity necessary for the reactivation of the economy. The program will also help to provide urgently needed spare parts, equipment and materials required by key government agencies in order to maintain the provision of essential public services over the next few months.

2. Technical Assistance Sub-component

a) Summary Description

While it is not possible to provide a complete and detailed list of the GOP's short-term technical assistance requirements, the following provides brief descriptions of these requirements on an illustrative basis. The technical assistance program will be demand-driven, responding to the immediate needs of the government during a five-month period. Fairly detailed descriptions of technical

bastante detalladas de la asistencia técnica en los renglones de la Administración Financiera y la Administración de la Justicia se presentan abajo, seguida por una breve discusión de los tipos ilustrativos de asistencia técnica a corto plazo que podrían ser financiadas dentro de este sub-componente.

b) Actividad de Administración Financiera
(\$200,000)

A solicitud del Contralor General, la compra para parte del diseño del Proyecto LAC/FMIP se iniciará cuando se firme el presente convenio. El objetivo de la Asistencia Técnica que se proporcionará es el de inculcar al personal del sector público una conciencia de su responsabilidad en el manejo honesto de los recursos públicos y el de fortalecer sus mecanismos y técnicas para cumplir con esta responsabilidad. El programa de cinco puntos de la Asistencia Técnica (A.T.), incluirá:

1) La promulgación de un Código de Ética y Honestidad para los servidores públicos, acompañada de una amplia campaña en los medios y "Coloquios de Contraloría" para el personal, primero el de la Oficina del Contralor General (OGO) y después el de todas las agencias públicas.

2) El diseño de un sistema integrado de administración financiera con la Oficina del Contralor a la cabeza, construyendo sobre una central financiera computarizada de datos de ingresos actualmente funcionando, gastos, deuda pública, etc. Esto involucrará especialmente, el desarrollo de un sistema integrado de administración de caja y el establecimiento de departamentos financieros centralizados en cada entidad, eliminando así, las múltiples

asistencia in Financial Management and Administration of Justice are presented below, followed by a brief discussion of illustrative types of short-term technical assistance that may be financed within this sub-component.

b) Financial Management Activity (\$200,000)

At the request of the Comptroller General, the buy-in to the LAC/FMIP project will be initiated upon signing of this agreement. The objective of the TA to be provided is to inculcate public sector personnel with a consciousness of their accountability for honest management of public resources and to strengthen their mechanisms and techniques for fulfilling this responsibility. The five point program of TA will include:

1) The promulgation of a Code of Ethics or Honesty for Public servants accompanied by a broad media campaign and "Contraloría Colloquiums" for staff, first of the Comptroller General's Office (OGO), then of all public agencies.

2) The design of an integrated financial management system with the OGO at its head, building upon the already functioning central computerized financial data base of revenues, expenditures, public debt, etc. This will especially involve the development of an integrated cash management system and the establishment of centralized finance departments in each entity, thus eliminating multiple bank accounts, working capital funds and similar high

cuentas bancarias, fondos de capital de trabajo y operaciones similares de caja de alto riesgo.

3) El diseño de un sistema completo de auditoría basado en una nueva oficina del Auditor General de Panama (OAG) para segregar todas las funciones de auditoría de los deberes de la administración financiera y establecer una post-auditoría profesional en vez de medidas de pre-control ad hoc. Un personal especializado de inspectores/investigadores dentro de la Oficina del Auditor General (OAG) se establecerá para llevar a cabo investigaciones de fraude.

4) El establecimiento de un mecanismo rápido y eficiente para la recuperación administrativa de los recursos públicos ilegalmente apropiados (para funcionar separadamente pero paralelamente a los procedimientos criminales). Esto ofrece una alternativa para la activación de las disposiciones legales inactivas para una Corte de Cuentas, la cual fue previamente considerada por el Contralor General.

5) Asistencia en la redacción de la legislación propuesta para llevar a cabo los puntos 2, 3 y 4 arriba expuestos, para presentarlos a la Asamblea cuando se constituya.

c. Actividad de Administración de Justicia
(\$200,000)

Se reservará una cantidad limitada de fondos para apoyar los requerimientos de asistencia técnica a corto plazo en el área de administración de justicia e iniciativas democráticas como lo requiera la Corte Suprema. La mayoría de estos fondos (aproximadamente \$150,000) se usarán para comprar en el Convenio Cooperativo con la Universidad

risk cash operations.

3) The design of a comprehensive audit system based in a new Office of the Auditor General of Panama (OAG) so as to segregate all audit functions from financial management duties and provide for professional post audit rather than ad hoc pre-control measures. A skilled staff of inspectors/investigators within the OAG will be set up to perform fraud investigations.

4) The establishment of a speedy and efficient mechanism for the administrative recovery of public resources illegally appropriated (to function separately from, but in parallel to, criminal proceedings). This offers an alternative to the activation of the dormant legal provisions for a Court of Accounts which previously was being considered by the Comptroller General.

5) Assistance in drafting proposed legislation to implement items 2, 3 and 4 above to be presented to the Assembly when constituted.

c) Administration of Justice Activity
(\$200,000)

A limited amount of funds will be reserved to support short-term technical assistance requirements in the area of administration of justice and democratic initiatives as requested by the Supreme Court. Most of these funds (approximately \$150,000) will be used to buy into the Cooperative Agreement with Florida International

Internacional de Florida bajo la Administración Regional del Proyecto de Justicia (598-0642). La Universidad Internacional de Florida (FIU) proveerá los expertos necesarios a corto plazo. La parte importante de esta asistencia recaerá en la Corte Suprema y en la Procuraduría General. Entre las actividades que se emprenderán son las actualizaciones del sector "AOJ" de avalúos terminados en 1986, informes de opciones sobre la reorganización y reestructuración de los Tribunales y de la Oficina de la Procuraduría General, asistencia en la redacción de la legislación para la reorganización, preparación y organización de seminarios y talleres para los empleados de la Corte Suprema y Procuraduría General. De ser necesario, un empleado residente, la coordinación del Administrador de Justicia (AOJ) será contratada bajo el Convenio Cooperativo de la Universidad Internacional de la Florida (FIU) para llevar a cabo deberes relacionados a las necesidades de asistencia técnica a corto plazo en la administración de justicia.

Finalmente, los restantes \$50,000 serán utilizados para conducir una evaluación de la democracia. Este será contratado por la A.I.D. con expertos a ser identificados. Esto se enfocará sobre el status de otras instituciones gubernamentales, tales como la Asamblea, el Tribunal Electoral y grupos de acción cívica no gubernamentales. La evaluación de la democracia investigará también las actitudes de ciudadanos y percepciones hacia el gobierno y las fuerzas públicas y la necesidad de programas de educación cívica en el role y responsabilidad del gobierno, hacia sus ciudadanos y los derechos de los ciudadanos en una democracia.

University (FIU) under the Regional Administration of Justice Project (598-0642). FIU will provide short-term experts as needed. The focus of this assistance will be on the Supreme Court and the Attorney General. Among the activities that will be undertaken are updates of the AOJ sector assessment completed in 1986, options papers on reorganization and restructuring of the Courts and the Office of the Attorney General, assistance in drafting legislation for reorganization, and preparation and organization of seminars and workshops for employees of the Supreme Court and the Attorney General. If necessary, a resident hire AOJ liaison will be contracted under the FIU Cooperative Agreement to perform duties related to the short term technical assistance needs in administration of justice.

Finally, the remaining \$50,000 will be used to conduct a democracy assessment. This will be contracted by AID with experts to be identified. This will be focused on the status of other governmental institutions such as the Assembly, the Electoral Tribunal and nongovernmental civic action groups. The democracy assessment will also research citizen attitudes and perceptions toward the government and public forces and the need for civic education programs on the role and responsibility of the government towards its citizens and the rights of citizens in a democracy.

d) Otras necesidades de Asistencia Técnica a corto plazo
(\$755,000)

La asistencia técnica en las siguientes áreas proveen una lista ilustrativa de las actividades potenciales a ser financiadas bajo este sub-componente.

- 1) Estudios para desarrollar un extenso programa de generación de empleo y privatización de empresas estatales.
- 2) Estudios del sector vivienda y del sector transporte
- 3) Asistencia en estrategias económicas, créditos financieros nacionales, prácticas bancarias, seguridad social, sistemas de servicios civiles, programas de mantenimiento de infraestructura pública y estrategias ambientales.
- 4) Seminarios para discutir el rol del sector privado y público en el desarrollo.
- 5) Adiestramiento a corto plazo para las funciones críticas administrativas del Gobierno de Panamá.

e) Núcleo de la Asistencia Técnica
(\$300,000)

Se contratarán tres asesores a largo plazo por un período de hasta cinco (5) meses cada uno para suministrar asistencia al Gobierno de Panamá en la administración pública, política económica y finanzas públicas y para asistir a las agencias gubernamentales en la identificación, priorización y alcance de los requerimientos de asistencia técnica a corto plazo. El grupo residente

d) Other short-term Technical Assistance needs (\$755,000)

Technical assistance in the following areas provide an illustrative list of potential activities to be funded under this sub-component.

- 1) Studies to develop a large employment generation program and privatization of state-owned enterprises.
- 2) Housing sector and transportation sector assessments.
- 3) Assistance on economic, national financial and credit strategies, banking practices, social security, civil service systems, public infrastructure maintenance programs, and environmental strategies.
- 4) Seminars to discuss public/private sector role in development.
- 5) Short-term training for critical GOP administrative functions.

e) Core Technical Assistance (\$300,000)

Three "long-term" advisors will be contracted for up to five months each to provide assistance to the GOP in public administration, economic policy and public finance and to assist government agencies in the identification, prioritization and scoping of short-term technical assistance requirements. The resident group will include an administrative assistant who will provide the

incluira un asistente administrativo, quien proporcionara apoyo administrativo y operacional dia a dia, al grupo y a los consultores a corto plazo. El grupo residente estara ubicado en el MIPPE por un periodo de hasta cinco meses.

f) Mecanismos para Contratacion de Asistencia Tecnica

Las actividades arriba descritas con anterioridad, seran realizadas a traves de los siguientes mecanismos de contratacion: (i) contrato con una firma estadounidense para un grupo de asesores tecnicos residentes y asistencia tecnica a corto plazo, (ii) Contrato Abierto para la Asistencia Tecnica (ordenes de trabajo IQCs) apropiados o compra de proyectos regionales con opcion de hacer ordenes de trabajo (iii) una compra con el Proyecto de Administracion Financiera Regional LAC (LAC/FMIP) para la actividad de administracion financiera, y (iv) una compra de trabajo bajo el Convenio Cooperativo con la Universidad Internacional de Florida bajo el Proyecto de Administracion de Justicia Regional (598-0642) para la administracion de justicia.

Bajo (i), la A.I.D. contratara por parte del Gobierno de Panama, y despues de un proceso de competencia informal, con una firma de los Estados Unidos la cual proporcionara la asistencia tecnica principal y la asistencia tecnica a corto plazo. Cuando sea necesario, el contratista sub-contratara asistencia a corto plazo.

Los requerimientos de asistencia tecnica a corto plazo se definiran en consultas directas entre el jefe de la parte contratista (COP), el Administrador del Proyecto de la A.I.D. y el Administrador del Proyecto

day-to-day operational and administrative support to the group and short-term consultants. The resident group will be located in MIPPE for a period of up to 5 months.

f) Technical Assistance Contracting Mechanisms

The activities described above will be carried out through the following contracting mechanisms: (i) contract with a U.S. firm for a group of resident technical advisors and short-term technical assistance, (ii) appropriate Indefinite Quarterly Contract (IQC work orders) or buy-in projects, (iii) a buy-in with the LAC Regional Financial Management Project (LAC/FMIP) for the financial management activity, and (iv) a buy-in into the Cooperative Agreement with Florida International University under the Regional Administration of Justice Project (598-0642) for administration of justice.

Under (i), AID will contract on behalf of the GOP and, after an informal competition process, with a U.S. firm which will provide both the core technical assistance and the short-term technical assistance. The contractor will, when necessary, subcontract for some of the short-term technical assistance.

The short-term technical assistance requirements will be defined in direct consultation between the contractor's chief of party (COP), AID's Project Manager and the GOP's Project Manager, an official

del Gobierno de Panamá, un oficial del MIPPE. Sin una tarea en particular involucra a una agencia distinta al MIPPE, un oficial responsable de tal agencia participaría también en la definición del alcance del trabajo. Se espera que algunos trabajos requieran asistencia técnica a corto plazo para definir el correspondiente alcance del trabajo. En tales casos, habría dos etapas de aprobación.

Primero, en el momento de definir la función sobre una base preliminar, acción que generalmente podría originarse en el Gobierno de Panamá o por sugerencia del COP al Gobierno de Panamá, se requeriría la aprobación de la A.I.D., y la propuesta presentada a la A.I.D. deberá incluir los términos de referencia, el personal a corto plazo, y el costo estimado.

Segundo, una vez se defina el alcance del trabajo, se presentará una nueva propuesta a la AID, para su aprobación. En caso de que la definición del alcance de trabajo no requiera asistencia adicional a la capacidad del personal principal, solamente sería necesaria una etapa para la aprobación. Para cada trabajo que requiera personal traído por el contratista principal, la oficina del contratista en los Estados Unidos podría responsabilizarse de los convenios de contrato con personas o instituciones. El contratista estaría a cargo del adelanto de las asignaciones de subsistencia y reservaciones de transportes y boletos, etc.

Las compras para la administración financiera y actividades de Administración de Justicia serán administradas directamente por el Administrador del Proyecto de la A.I.D.

from MIPPE. If a particular task involves an agency different from MIPPE, a responsible official of such agency would also participate in defining the scope of work. It is expected that some tasks may require short-term technical assistance to define the corresponding scope of work. In such cases, there would be two stages of approval.

First, at the moment of defining the task on a preliminary basis, an action that would generally be originated by the COP or by a suggestion of the COP to the COP, AID approval would be required, and the task proposal submitted to AID would include the terms of reference, the short-term personnel, and the estimated cost.

Second, once the scope of work is defined, a new task proposal will be submitted to AID for approval. In case the definition of the task's scope of work does not require assistance beyond the capability of the core staff, only one approval stage would be necessary. For each task that requires personnel to be brought in under the main contractor, the contractor's office in the U.S. would be responsible for contract agreements with individuals or institutions. The contractor would be in charge of advancing subsistence allowances and transport reservations and ticketing etc.

The buy-ins for the financial management and Administration of Justice activities will be administered directly by the A.I.D. Project Manager.

3. Sub-Componente de Productos

a) Resumen de la Descripción

Debido a la situación financiera del gobierno y al hecho que no se ha estado operando con un presupuesto durante los dos últimos años, la adquisición de equipo y piezas de repuesto por las agencias principales del gobierno está seriamente atrasada. Siete agencias principales del gobierno que requieren reemplazo inmediato de equipo, partes de repuesto y materiales han sido identificadas: (1) el Ministerio de Salud, (2) el Ministerio de Obras Públicas (MOP), (3) la compañía de electricidad Instituto de Recursos Hidráulicos y Electrificación (IRHE), (4) la compañía de recolección de basura Dirección Metropolitana de Aseo (DIMA), (5) El Instituto de Acueductos y Alcantarillados Nacionales (IDAN), (6) la Corte Suprema de Justicia y el Ministerio Público y (7) el Instituto Nacional de Telecomunicaciones (INTEL).

b) Mecanismos de Adquisición de Productos

Los ministerios, las agencias y las instituciones del Gobierno suministrarán al MIPPE una lista de productos requeridos. El MIPPE aprobará y priorizará estas solicitudes y suministrarán a la A.I.D. la lista final aprobada. Con la excepción del Ministerio de Salud, la adquisición de emergencia se llevará a cabo bajo los procedimientos directos de la A.I.D. y la A.I.D. será responsable del recibo de los productos obtenidos antes de pasarlos al MIPPE para la distribución a los respectivos ministerios del Gobierno de Panamá. El Ministerio de Salud obtendrá sus propios productos bajo los procedimientos de adquisición del

3. Commodities Sub-Component

a) Summary Description

Because of the government's financial situation and the fact that it has not been operating with a budget for the past two years, the procurement of equipment and spare parts by key government agencies is seriously behind schedule. Seven key government agencies requiring urgently needed replacement equipment, spare parts and materials have been identified: (1) the Ministry of Health, (2) the Ministry of Public Works (MOP), (3) the Electric Company (IRHE), (4) the Garbage Collection Company (DIMA) (5) the Water and Sewage Company (IDAN), (6) the Supreme Court and Public Ministry and, (7) the National Institute of Telecommunications (INTEL).

b) Commodities Procurement Mechanisms

Government ministries, agencies and institutions will submit a list of requested commodities to MIPPE. MIPPE will approve and prioritize these requests and will submit the final approved list to A.I.D. With the exception of the Ministry of Health, the emergency procurement will be carried out under A.I.D. direct procurement procedures, and A.I.D. will be responsible for receiving A.I.D. procured commodities prior to passing them to MIPPE for distribution to appropriate GOP ministries. The Ministry of Health will procure their own commodities under host country procurement procedures and will receive advances

país anfitrión y recibirán los adelantos para su liquidación sobre una base periódica.

for this which will be liquidated on a periodic basis.

C. Programa e Instituciones Ejecutoras

El Ministerio de Planificación y Política Económica será la entidad ejecutora principal, y el Ministro de Planificación y Política Económica será el representante autorizado para este componente. Tal como se requiere en las condiciones pertinentes previas en el Convenio de Donación, el MIPPE nombrará un Administrador dentro del MIPPE, para coordinar la ejecución del componente.

C. Implementing Institutions and Schedule

The Ministry of Planning and Economic Development will be the primary implementing entity, and the Minister of Planning and Economic Policy will be the authorized representative for this Component. As required in the pertinent condition precedent in the Grant Agreement, MIPPE will name a Project Manager within MIPPE to coordinate implementation of the component.

Programa de Ejecución/Implementation Schedule

<u>Actividad/Activity</u>	<u>Fecha de Terminación/Completion Date</u>	<u>Entidad Responsable/Responsible Entity</u>
a. Preparación del Convenio de Donación y Descripción del Proyecto/Preparation of Grant Agreement and Project Description	Feb. 25, 1990	AID/MIPPE
b. Firma del Convenio de Donación con el MIPPE/Signing of Grant Agreement with MIPPE.	Mar. 5, 1990	AID/MIPPE
c. Contratación de Asistencia Técnica/Contracting Technical Assistance	Mar. 15, 1990	AID
d. Adquisición del Producto/Commodity Procurement	Mar. 15, 1990	AID/SP&PM
e. Movilización del Contratista/Contractor mobilization	Mar 25, 1990	Contratista/Contractor
f. Entrega del Producto/Commodity delivery	Mar.25, 1990	Contratista/Contractor

D. Auditoría

Revisiones de auditoría limitada y auditoría financieras

D. Audits

Limited audit surveys and concurrent financial audits of the

continuas de las instituciones ejecutoras que reciben fondos bajo el Componente de Asistencia Técnica y Apoyo del Producto serán dirigidos mediante un contrato con A.I.D. de cantidad indefinida con una firma de auditoría afiliada de los Estados Unidos. RIG/A/T será nombrado el cliente y proporcionará la supervisión de tales auditorías. Las instituciones ejecutoras convienen en ejecutar cualesquiera recomendaciones que resulten de las revisiones adjudicadas como una condición para recibir fondos adicionales bajo el programa.

implementing institutions receiving funds under the Technical Assistance and Commodity Support Component will be conducted under an A.I.D. indefinite quantity contract with a U.S. affiliated audit firm. RIG/A/T will be designated the client and will provide supervision for such audits. The implementing institutions agree to implement any recommendations resulting from the award surveys as a condition to receiving further funding under the program.

E. Métodos y Procedimientos de Financiamiento

Lo siguiente proporciona información pertinente a los métodos de ejecución y financiamiento:

E. Financing Methods and Procedures

The following provides information relating to the methods of implementation and financing:

<u>Requisición/Item</u>	<u>Método de Ejecución/ Method of Implementation</u>	<u>Método de Financiamiento/ Method of Financing</u>	<u>Cantidad/ Amount</u>
<u>ASISTENCIA TÉCNICA/ TECHNICAL ASSISTANCE</u>			
Asistencia Técnica/ Technical Assistance	Contrato Directo/ Direct Contract	Pago Directo/ Direct Pay	\$ 905,000
IQC-Asistencia Técnica a corto plazo/ IQC- Short Term TA	Contrato Directo/ Direct Contract	Pago Directo/ Direct Pay	150,000
Asistencia Técnica Financiera para la Administración de las Compras/ TA-Fin. Mgt Buy-in.	Contrato Directo/ Direct Contract	Pago Directo/ Direct Pay	200,000
Asistencia Técnica Administración de Justicia - Compras/ TA-AOJ Buy-In	Contrato Directo/ Direct Contract	Pago Directo/ Direct Pay	200,000
<u>AUDITORIA/AUDIT</u>			
Servicios de Auditoría/ Audit Services	Contrato Directo/ Direct Contract	Pago Directo/ Direct Pay	45,000

BIENES/COMMODITIES

Corte Suprema, Ministerio Público y Ministerio de Salud/ Supreme Court, Public Ministry, and Ministry of Health	Carta de Ejecución del Proyecto/Project Implementation Letter	Pago Directo/ con anticipa- ción/Direct Pay With Advance	251,250
Todos los otros bienes/All other Commodities	Adquisición directa de la AID/AID Direct Procurement	Pago Directo/ Direct Pay	2,748,750
TOTAL			\$4,500,000

F. Plan Financiero Ilustrativo

La A.I.D. puede hacer, sin el consentimiento escrito entre las partes, ajustes hasta del 15% a los renglones del plan financiero del Cuadro 1. (En el siguiente plan, las líneas de los renglones están marcadas a, b, c, etc., más la auditoría).

El costo total de este componente es de \$4.5 de los cuales \$1.5 millones son para asistencia técnica y \$3.0 millones para los servicios.

F. Illustrative Financial Plan

Adjustments of up to 15% to the line items in the financial plan in Table I may be made by A.I.D. without written agreement of the Parties. (In the following plan, line items are all the lines marked a., b., c., etc., plus audits.)

The total cost of this component is \$4.5 million of which \$1.5 million is for Technical Assistance and \$3.0 million is for Commodities.

CUADRO I/TABLE I
PLAN FINANCIERO/FINANCIAL PLAN

<u>1. Asistencia Técnica/Technical Assistance</u>		
a. 3 Asesores y Asistente Administrativo por cinco meses/Five-month advisors (3) and administrative asst.		\$ 300,000
b. Asistencia Técnica a corto plazo (puede incluir IQCs)/Short-term Technical Assistance (may include IQCs)		605,000
c. Mínimo separado para IQC's/Minimum Set aside for IQC's		150,000
d. Financial Management Buy-In		200,000
e. Administration of Justice Buy-In		200,000
	Sub-Total	\$1,455,000
<u>2. Auditoría/Audit</u>		
	Sub-Total	45,000
<u>3. Bienes/Commodities</u>		
		\$3,000,000
	Total	\$4,500,000