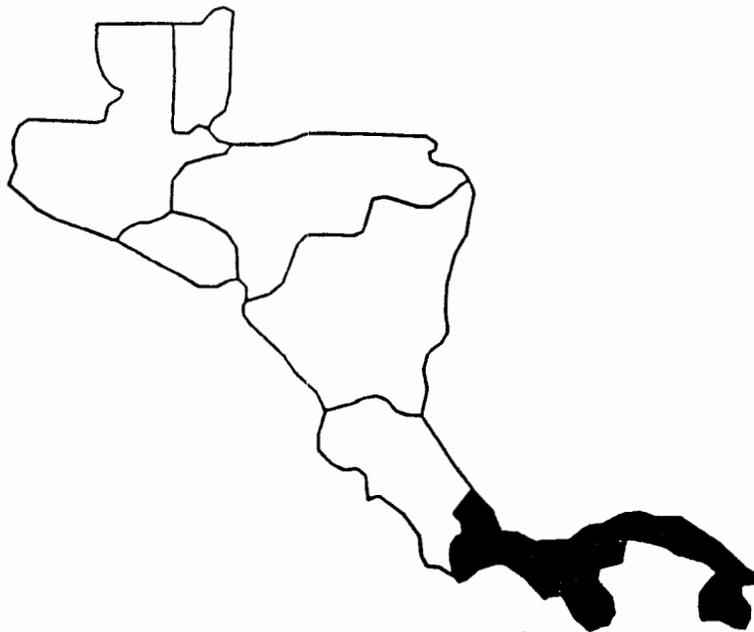


ACTION PLAN

PANAMA

1992 TO 1993



MAY 1991

USAID/PANAMA

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SECTION I

Relationships of LAC Bureau Objectives and USAID/Panama's Strategy

1. **Current Policy Dialogue, and Progress in Advancing the Agenda**

USAID/Panama's policy dialogue agenda since the Mission reopened in early 1990 has been ambitious, particularly in the areas of consolidation of democracy, public sector management and economic policy reform. The destruction of Panama's public sector institutions during the Noriega years, and the inattention to longstanding economic policy problems, left the Endara government with its hands full in the first year of its administration. The challenges were daunting. The Government's immediate attention was needed to dismantle the military, create a civilian controlled police force, eliminate the pervasive pattern of corruption and thievery in public sector management, and restore a functioning and fair judicial system.

In addition, the economy was in a crisis, with most businesses in poor financial shape after the economic downturn suffered by Panama in the late eighties, compounded by the dislocations following Operation Just Cause. Potential investors began 1990 with a "wait and see" attitude, as the expectation was that economic policies would be changed by the incoming Government.

USAID policy dialogue during 1990 achieved important results. In the democracy area, with U.S. assistance under the Immediate Recovery Project, the Endara government was able to move quickly to restore basic public sector functions and services, and relocate the Supreme Court, whose building had been burned and looted. Administration of Justice workshops, funded under the same project, led to the introduction of important legislative reforms in the judicial sector, including elimination of pre-trial detention for certain charges, and steps toward reestablishment of the judicial career.

The Noriega regime left public sector management in complete disarray. The Endara government rapidly sought to reestablish honesty and financial accountability to the public sector. A strong Controller General with a reputation for unyielding integrity was appointed. He began to rebuild systematic financial management procedures, including procurement and contracting. A national budget was formulated and passed, after two years of public sector operation without a budget. In addition, public finances were put into order, with measures taken to control expenditure on wages and salaries. As a result, Panama was able to invite the International Monetary Fund for discussions early in 1990, and signed a shadow program later in the year. A mark of the success of the efforts to restore control to public finance is

that, during 1990, the GOP met or exceeded all of its targets under the IMF program.

The area of structural economic reform was more difficult. One problem was that many of the benefits of reform will be seen in the medium-to-long term, while the other problems which the new Government faced seemed of much more immediate urgency. Of the Latin American economies, Panama possesses perhaps the greatest number of economic distortions. The labor code and social security levies combine to make Panamanian labor expensive, contributing to unemployment that reached 18.5 percent in 1990. Tariffs are high compared to elsewhere in the region, and are compounded by import quotas, domestic price controls and other trade barriers. Public utilities are inefficient, with inflated costs passed on to consumers. There is also the need to reform tax and agricultural policy, and to revise the role of the state-owned banks.

The structural adjustment agenda, plus the desire to balance the budget, are important for Panama not only for the benefits to the economy, but also to normalize lending relations with the multilateral institutions. Panama's severe indebtedness to these institutions (currently \$610 million in payments in arrears) has led to the formation of a Panama Support Group, chaired by the U.S. Negotiation of an Economic Recovery Loan with the IBRD and IDB has been slow, as political consensus-building has been difficult within the coalition government, and institutional capacity to analyze and implement reform is weak. Under the Mission's program, \$130 million in ESF is reserved for the arrears-clearing exercise, while an additional \$84 million in ESF cash transfers is partially conditioned on adoption of an IFI-supported adjustment program.

USAID assisted the Government of Panama to pursue necessary policy reform through a component of the Immediate Recovery Project which placed long-term technical advisors in the Ministry of Planning and Economic Policy and provided short-term technical assistance in areas related to the proposed reforms. The output of this project is being used in Panama's negotiations with the IFI's, and has led to adoption of some initial reforms. For example, during 1990 and early 1991, Panama lifted domestic price controls on products making up about a quarter of the basic consumer basket, and completed the technical work to convert specific tariffs to their ad valorem equivalents.

The Mission policy dialogue plan for the Action Plan period continues to seek reform in the three areas of democracy, public management, and economic policy. In addition, consistent with the strategy laid out in our CDSS, policy issues related to Panama's implementation of the Canal treaties have been added. The workplan of the policy dialogue agenda is laid out in Table I which follows.

USAID/PANAMA
POLICY AGENDA
FY 1992-1993

CDSS OBJECTIVE	POLICY PROBLEM	POLICY CHANGE SOUGHT	NEGOTIATING VEHICLE	TIME-FRAME
Diversify economy and increase competitiveness of Panamanian products on World Market.	High tariffs and other trade barriers bias national production against exports.	Progressive reduction in tariff levels, elimination of import quotas and other trade restrictions.	Economic Recovery Program Economic Policy Development Project Trade and Investment Promotion Project	1992-1993
	Inefficient management of public enterprises results in high domestic prices for their output, e.g., electricity, petroleum products, port fees.	Improved efficiency through reduction in public enterprise employment, privatization of services, greater management autonomy.	Economic Recovery Program Economic Policy Development Project PD&S	1992-1993
	Labor code and labor policy contribute to high labor costs.	Development of action plan to review and revise labor code.	Economic Policy Development Project Trade and Investment Promotion Project AIFLD	1992-1993
	Low priority and limited resources devoted to environmental preservation has contributed to deforestation and other environmental problems.	Panama explores and adopts mechanisms such as debt-for-nature swaps, and greater use of PVO's to increase resources and expand programs devoted to environmental protection.	Natural Resources Management Project (MARENA)	1992-1993

USAID/PANAMA
POLICY AGENDA
FY 1992-1993

CDSS OBJECTIVE	POLICY PROBLEM	POLICY CHANGE SOUGHT	NEGOTIATING VEHICLE	TIME-FRAME
Strengthen Democratic Institutions	Public sector resources are poorly allocated, leading to underfunding of priority programs and a tendency toward deficit.	Improved public sector budgeting and investment planning, reduction in employment and reform of civil service policies.	Economic Policy Development Project Financial Management Improvement Project Administration of Justice Project	1992-1993
	Public sector financial management, including tax administration, is weak.	GOP initiates program to reform financial management and tax administration. Independent audit function established.	Financial Management Improvement Project Tax Administration Project	1992-1993
	Public defenders not available as defense counsel immediately upon arrest. Too many pre-trial detainees held.	Transfer of responsibility for public defenders from Government Ministry to Supreme Court.	Administration of Justice Project	1992-1993
	Corregidores and police judges - administrative personnel appointed by municipalities which have no legal training - have power to imprison for up to two years.	Curtailment of jurisdiction of corregidores and police judges.	Administration of Justice Project	1992-1993

USAID/PANAMA
POLICY AGENDA
FY 1992-1993

CDSS OBJECTIVE	POLICY PROBLEM	POLICY CHANGE SOUGHT	NEGOTIATING VEHICLE	TIME-FRAME
	Enormous backlog of court cases.	Expedition of case handling through legal and administrative changes in how cases are processed.	Administration of Justice Project	1992-1993
	Aspects of electoral code permit institutionalized fraud.	Reform of electoral code.	Elections Assistance Project	1992-1993
	Labor unions' internal processes are undemocratic and do not represent worker interests.	Democratization of internal management and procedures.	AIFLD	1992-1993
Assist Panama to prepare for assumption of full responsibility for the Canal.	Analysis required and decisions need to be taken about uses of reverted areas and property.	GOP completes studies and decides on policies for use of reverted lands and property.	Economic Policy Development Project MARENA	1992-1993
	GOP has not yet initiated process to consider future management structure for Canal.	GOP establishes commission and begins analysis/public dissemination of options for Canal management.	Economic Policy Development Project.	1992-1993

2. Relationships of the Existing CDSS and Policy Dialogue to LAC Bureau Objectives

USAID/Panama's CDSS was submitted for review at the same time as this Action Plan. The Mission had the advantage of framing its newly re-established program against the current LAC Bureau Objectives. Although the Mission's third objective (Successful Implementation of the Canal Treaties) is shown under the Bureau's second Objective, the case could easily be made that success in implementing the Treaties relates to all three LAC Objectives -- the future management of the Canal will impact on Panama's ability to sustain broad-based economic growth, investor confidence will depend on a stable, democratic environment surrounding the Canal, and international cooperation will be needed for the Canal to continue as an important waterway in international commerce. The close fit is as follows:

LAC OBJECTIVES

I. SUPPORT THE ACHIEVEMENT OF BROADLY-BASED, SUSTAINABLE ECONOMIC GROWTH

- I. Economic Diversification and Export Led Growth:
 1. Expand employment and exports through diversification of the economy.
 2. Improve management of Panama's natural resource base.

II. SUPPORT THE EVOLUTION OF STABLE, DEMOCRATIC SOCIETIES

Mission Objectives/Sub-Objectives

- II. Consolidation of Democratic Processes and Institutions:
 1. Strengthen competent, civilian government institutions that will merit the confidence of political leaders, citizens, and investors.
 2. Encourage pluralism and public support for democratic values and processes by governmental and nongovernmental bodies including the press, labor unions, political parties, civic organizations and business associations

III. Successful Implementation of the Canal Treaties:

1. Strengthen Government of Panama institutional capability to implement the Panama Canal Treaties, including coordination of the national decision process regarding the future organization of Canal Administration and planning for Canal manpower requirements.
2. Assist the Government of Panama to develop plans for the use of reverted Canal properties.

III. RESPOND TO NEEDS FOR INTERNATIONAL COOPERATION IN ADDRESSING SPECIFIC CHALLENGES TO THE ATTAINMENT OF BROADLY-BASED, SUSTAINABLE ECONOMIC GROWTH AND THE EVOLUTION OF STABLE, DEMOCRATIC SOCIETIES.

SECTION II
Performance

The following information updates Panama's scoring for several indicators based on progress made in late 1990 and early 1991:

1. Macroeconomic Reform Program - Panama's performance under the 1990 IMF-monitored program was satisfactory, with all quantitative targets through the end of the year met, some with ample margins. The GOP has just concluded negotiations with the IMF for a Stand-by Program for 1991-1992. USAID/Panama recommends that Panama's score be increased from 8 to 9 in recognition of Panama's strong performance under its 1990 IMF program, and commitment to continue sound fiscal management under the proposed 1991-1992 Stand-by.

2. Domestic Financing of the Deficit - In 1990, Panama's control of public expenditure and strong revenue performance accounted for a net negative level of domestic financing of the deficit. The overall public sector deficit amounted to 3.4 percent of GDP, lower than earlier estimates. According to March 1991 IMF calculations, net domestic financing of the deficit in 1990 was -\$48 million, or -1.0 percent of GDP. Using this figure gives Panama a score of 10.0 (the same score as calculated by LAC).

3. Market Pricing - Under USAID's FY 1990 Economic Recovery Program, during late 1990 and early 1991 Panama has eliminated domestic price controls for a series of basic consumer products amounting to over one-quarter of the basic consumer food basket (canasta basica de alimentos). In addition, petroleum price controls have been managed flexibly, under a public policy to pass variations in the world price of petroleum through to the economy. Based on these improvements, USAID/Panama recommends that Panama's score be raised from 7 to 8.

4. Democracy/Human Rights - While USAID/Panama appreciates the purpose served by using an independent, outside appraisal of progress in this area, the score given Panama seems not to reflect recent gains made in consolidation of democracy. For example, partial elections were successfully and honestly held in January of 1991. There has been further purging of the national and technical judicial police. Legislation has been passed resulting in the release of prisoners in jail under pretrial detention. Legislation has been proposed to institutionalize demilitarization of Panama's defense. Finally, during 1990, 15 collective bargaining agreements were signed. For this reason, USAID/Panama recommends that Panama's score be rescaled up one notch to 15.5.

With the above-recommended revisions to Panama's scoring, the overall performance indicator for the country has a value of 78.6.

II. PERFORMANCE RELATED TO LAC BUREAU OBJECTIVES

TABLE II: LAC Performance Ratings Summary, FY 90

Country	Overall Perform Ranking	Overall Perform (100%)	Macro Policies (50%)	Social Servs. (20%)	Environ Mgt. (10%)	Dem & HR Commit. (20%)
Costa Rica	1	82.9	38.0	16.9	8.0	20.0
Jamaica	2	79.7	39.5	16.2	7.0	17.0
Belize	3	77.0	39.5	14.0	5.0	18.5
Panama	4	75.1	39.5	16.6	5.0	14.0
E. Caribbean	5	74.5	35.3	15.2	6.0	18.0
Bolivia	6	74.0	41.0	12.5	5.0	15.5
Honduras	7	72.6	34.4	15.7	7.0	15.5
Colombia	8	70.3	36.1	16.7	5.0	12.5
El Salvador	9	70.2	40.7	12.0	5.0	12.5
Ecuador	10	69.7	32.0	13.7	7.0	17.0
Peru	11	61.1	31.9	11.7	5.0	12.5
Dom Republic	12	56.7	21.2	15.0	5.0	15.5
Guatemala	13	53.9	23.7	11.7	6.0	12.5
Haiti	14	51.4	28.6	11.3	5.0	6.5
Nicaragua	15	49.7	16.0	14.7	5.0	14.0
Guyana	16	46.6	19.5	14.6	3.0	9.5
Eastern Caribbean by Country						
Antigua		63.7	26.1	16.1	6.0	15.5
Dominica		80.5	40.0	16.0	6.0	18.5
Grenada		64.7	27.4	14.3	6.0	17.0
St. Kitts		76.2	36.6	13.6	6.0	20.0
St. Lucia		82.2	41.5	16.2	6.0	18.5
St. Vincent		79.7	40.0	15.2	6.0	18.5

SECTION III
New Program Initiatives

To implement its strategy, USAID/Panama proposes two new starts in FY 92 and one new project in FY 93. To maintain its focussed approach, the Mission will have only nine projects active in each of the years of the Action Plan.

FY 92 New Projects

Small Business Promotion (525-0316)	LOP \$5,000
Improved Election Administration (525-0317)	LOP \$4,000

FY 93 New Project

Civil Service Reform (525-0318)	LOP \$4,500
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The Small Business Promotion project will create employment and diversify economic production. Micro and small businesses provide an estimated 80% of employment in Panama. However, these businesses have difficult and limited access to credit and technical assistance. Their potential to contribute more toward Panama's economic growth is largely unrealized.

The Improved Election Administration project will help the GOP's Electoral Tribunal prepare for a constitutional referendum, and national elections in 1994. Re-establishing institutional integrity and popular respect for the electoral process is essential to fully functioning democracy.

Following improvements in basic accounting and financial management which are beginning in FY 91, the next step in assistance to public administration is the Civil Service Reform project in FY 93. The need for a career civil service is currently under discussion, and legislation to establish a career service is likely to be passed in 1992. The project is part of the Mission's strategy to support GOP efforts to improve and modernize operations.

The following chart summarizes the Mission's portfolio, and places the proposed new projects in contexts of budgets and mortgages for FY's 92 and 93.

PROJECT NUMBER AND TITLE
525

	LOP	FY 91 OYB	FY 92	End FY 92 Mort	FY 93	End FY 93 Mort
0000 PD&S		858	400		400	
0101 SDA			300		300	
0258 Priv. Sector Sch. (COSPAE)	500*	500 -F				
0302 Immediate Recovery Program	3,400*	3,400 -F				
0305 Improving Police Services	56,570*	6,570 -O	10,000 -O	40,000	10,000 -O	30,000
0306 Financial Management Reform	6,300	4,500 -N	1,800 -F			
0307 Democratic Initiatives	2,100	2,100 -F				
0308 Natural Resource Management	18,000	10,000 -N	5,000 -O	3,000	3,000 -F	
0309 Trade Promotion	8,000	2,000 -N	1,500 -O	4,500	1,500 -O	3,000
0310 Peace Corps	60*	60 -F				
0311 USIS	500	500 -F				
0312 Impr. Admin. of Justice	12,000	6,900 -N	3,000 -O	2,100	1,500 -O	600
0313 Economic Policy Development	5,000	3,100 -N	500 -O	1,400	1,400 -F	
0314 Tax Administration Improvement	1,600	1,600 -F				
0316 Small Business Promotion	5,000		1,000 -N	4,000	1,500 -O	2,500
0317 Improved Election Admin.	4,000		1,500 -N	2,500	2,500 -F	
0318 Civil Service Reform	4,500				1,500 -N	3,000
1000 Central Amererica Peace Schol.	550*	550 -F				
1001 CLASP II	15,000	2,927 -N	2,000 -O	10,073	3,400 -O	6,673
TOTAL PROJECTS		45,565	27,000	67,573	27,000	45,773
		6	2		1	
		1	6		5	
		7	1		3	
TOTAL PROJECTS FUNDED IN FY		14	9		9	

N = NEW STARTS
O = ONGOING PROJECTS
F = FINAL OBLIGATION UNDER LOP
AND/OR NEW STARTS - FULLY FUNDED

* LOP adjusted to Action Plan period only. Prior years excluded.

NEW PROJECT NARRATIVE

LAC/BUREAU OBJECTIVE/SUB-OBJECTIVES

I. SUPPORT THE ACHIEVEMENT OF BROADLY-BASED, SUSTAINABLE ECONOMIC GROWTH.

- A. ENCOURAGE THE ADOPTION OF AND CONTINUED ADHERENCE TO ECONOMIC POLICIES THAT PROMOTE INVESTMENT, PRODUCTIVE EMPLOYMENT AND EXPORT-LED ECONOMIC DIVERSIFICATION.
- B. ENCOURAGE A VIGOROUS RESPONSE BY THE PRIVATE SECTOR TO A FAVORABLE POLICY ENVIRONMENT.

PROJECT TITLE/NUMBER: Small and Micro Business Development
(525-0316)

TYPE/PROJECT FUNDING: DP - FY 92 \$1 million LOP \$5 million

Consistency of Project with A.I.D. Country Strategy: This project directly supports a Mission Objective - ECONOMIC DIVERSIFICATION AND EXPORT LED GROWTH - and a Sub-objective: Expand employment and exports through diversification of the economy.

Relationship to A.I.D. and Other Donor Activities: To date, no specific projects in this area have been identified by other donors. However, the Mission plans to initiate a dialogue with the donor community and the GOP regarding a possible cooperative effort to develop an integrated strategy and obtain complementary funding and/or technical and commodity support for this project.

Goal and Purpose: The goal is to increase employment and expand efficient production. The project purpose is to: (1) establish an efficient institutional system that will increase the supply of credit and provide improved training, technical assistance and services to small and micro businesses, and (2) improve the policy and regulatory environment under which small businesses operate.

Project Description: With a democratically elected government now in place, confidence in Panama is gradually returning. Business activity is picking up but requires assistance in such areas as medium and long term credit and technical assistance. The small business sector has been especially hard hit as it did not have the necessary funds to survive the period of U.S. sanctions and economic decline. This sector was further debilitated by the looting that took place following the removal of General Noriega from power. Small and micro businesses have in the past provided approximately 80% of the jobs in Panama and thus it is important to revitalize this important sector of the economy.

The project's three components are:

1. Developing an efficient system to channel credit to micro and small businesses: Efficient credit delivery systems will be developed to on-lend funds to micro and small businesses. Existing small business credit and guarantee funds within the public sector will be examined with an eye toward privatizing them. In the case of small business, it is anticipated that the commercial banking and cooperative system will be used to channel loans. Credit to micro businesses will make use of the existing PVO and cooperative structures. Up to \$1 million in A.I.D. funds may be used for micro business credit. A.I.D. funds would be leveraged with bank, cooperative, and PVO funds to provide a greater project impact.

2. Providing technical assistance to micro and small businesses: Technical assistance will be made available to micro and small businesses to increase their productivity. It is anticipated that this assistance will be provided through a PVO which would have several field offices throughout Panama. Micro and small businesses would be assisted in such areas as accounting, shop layout, inventory control, and marketing. Depending on the size of the recipient businesses and their ability to pay, fees will be charged for technical assistance.

3. Policy and regulatory reform: There are several policies and regulations that adversely affect the micro and small business sector. In addition, there are government agencies that heavily regulate micro and small business activities instead of promoting them. During project design, the major regulatory impediments to this sector will be identified and discussed with the GOP. The possibility of establishing a one-stop window for the sector will be examined. It is expected that some issues will be resolved before project start-up, but because of the complexity of others, further analysis will be required. This analysis will be carried out during project implementation and will help stimulate a dialogue between the public and private sectors which will lead to policy changes benefitting micro and small businesses.

Beneficiaries: The project will directly benefit micro and small businesses in Panama. Currently this sector employs approximately 80% of Panama's work force. Assistance to this sector will thus increase employment opportunities in a sector which has traditionally been highly labor intensive.

Planned Implementation Arrangements: Technical assistance will be channeled through PVOs, with funds for the credit delivery system being provided through the private financial system. Focussed technical assistance will be provided to the GOP to develop such mechanisms as a one-stop window.

Sustainability of Proposed Activities: By the end of the project, the components involving credit and technical assistance to micro and small businesses will generate enough income to be self sustaining. It should be noted that a technical assistance to these businesses will be provided by a Panamanian organization modelled after the International Executive Service Corps (IESC). Thus technical assistance costs will be low, quality will be high and small and micro businesses should be able to cover the costs of this service. The component on policy and regulatory reform will have accomplished its purpose and will end with the project.

Workforce Implications: The project will be implemented by the Mission's Private Sector Development Office. Project funds will be used to hire a project liaison officer to assist in project implementation.

Potential Issues and/or Innovative Program Approaches: The project will draw upon A.I.D.'s extensive experience in micro and small business promotion, and will use proven approaches in the credit area. The program will be innovative in the technical assistance area as it will seek to develop a Panamanian organization similar to the IESC.

Request for Delegation of Approval Authority: As the proposed project does not include policy issues requiring AID/W resolution, USAID/Panama requests authority to approve and authorize both the PID and PP.

NEW PROJECT NARRATIVE

LAC/BUREAU OBJECTIVE/SUB-OBJECTIVE

II. SUPPORT THE EVOLUTION OF STABLE, DEMOCRATIC SOCIETIES.

- A. ENCOURAGE THE STRENGTHENING OF COMPETENT CIVILIAN GOVERNMENT INSTITUTIONS THAT WILL MERIT THE CONFIDENCE OF POLITICAL LEADERS, CITIZENS AND INVESTORS.

PROJECT TITLE/NUMBER: Improved Election Administration
(525-0317)

TYPE/PROJECT FUNDING: DP - FY 92 \$1.5 million LOP \$4.0 million

Consistency of Project with A.I.D. Country Strategy: This project directly supports a Mission Objective - CONSOLIDATION OF DEMOCRATIC PROCESSES AND INSTITUTIONS - and two Sub-objectives: (1) Strengthen competent, civilian government institutions that will merit the confidence of political leaders, citizens, and investors, and (2) Encourage pluralism and public support for democratic values and processes by governmental and nongovernmental bodies including the press, labor unions, political parties, civic organizations and business associations.

Relationship to A.I.D. and Other Donor Activities: Under the Democratic Initiatives Project (525-0307), the Mission provided the Electoral Tribunal with aid in preparation for the January 1991 partial elections, and is funding the development of a comprehensive needs assessment to be based in part on lessons learned from that experience. As a follow-on effort, this 3-year project will provide the Electoral Tribunal with an expanded program of training, technical assistance and commodities needed to support medium-term systemic and management improvements in election administration, budget preparation, financial management, and public/press relations.

To date, no specific projects in this area have been identified by other donors. However, the Mission plans to initiate a dialogue with the donor community and the GOP regarding a possible cooperative effort to develop an integrated strategy and obtain complementary funding and/or technical and commodity support for this project.

Goal and Purpose: The goal is stable democracy in Panama. The project's purpose is to improve the Tribunal's technical and administrative capacity to conduct free and fair elections.

Project Description: To ensure that free and fair elections become a permanent feature of Panamanian political life after decades of authoritarian military rule, the Electoral Tribunal must be able to effectively carry out its constitutional role in the process. The Tribunal organized partial elections in January 1991 with independence and transparency. It must now begin preparations for national elections in 1994.

The project will support the Tribunal's efforts under the following components:

1. Improving election administration: Existing constraints to the electoral process include a Noriega-era Electoral Code, civil registry, and voter registration system which was tainted by that regime. This project will finance counterpart exchange visits, technical assistance and training from regional election experts to carry out legislative analysis; streamline and modernize the Civil Registry; restructure and upgrade voter registration procedures and equipment; conduct in-service and short-term training courses, and develop and implement a national strategy for training poll workers and election observers before 1994.

2. Strengthening internal administration and financial management: The project will help the Electoral Tribunal improve internal operations and efficiency through the modernization and improvement of management procedures and organization, including those of provincial offices. Technical assistance and training will also be provided to strengthen administrative controls, financial management and internal audit procedures throughout the organization.

3. Building a constituency for a non-partisan electoral process: Old perceptions die hard. Despite the Electoral Tribunal's demonstrated impartiality in the 1991 partial elections, a major civic education and public relations effort will be required to overcome the public's lingering distrust in both the electoral process and the institution. A related problem is that a previous lack of experience with political and press freedom has led to excesses in both areas since the return of democracy. The project will feature an outreach program aimed at developing a continuing dialogue with all political parties, to persuade them to stop focussing exclusively on short-term political gains, recognize the long-term benefits of a non-partisan Electoral Tribunal and gain their support of the process and the institution. In a similar vein, the project will assist the Electoral Tribunal to work with media professionals to bring about a more balanced approach to reporting and analysis of election-related events.

Beneficiaries: Ultimately, all Panamanians will benefit from the improvement of the country's capacity in election administration. Direct beneficiaries will be 8,000 election officials, members of ballot verification boards, and election observers who will receive training under the project. As with all the Mission's projects, women will be proportionately represented, both as beneficiaries and participants.

Planned Implementation Arrangements: Technical assistance and training will be provided by the Inter-American Institute of Human Rights/Center for Electoral Planning and Promotion (IIDH/CAPEL). Commodity procurement will be done by the Mission, under an agreement with the Panamanian Electoral Tribunal.

Sustainability of Proposed Activities: Continuation of the electoral process will be the Government of Panama's responsibility. As stated in the CDSS:

Support for democratization must be internalized. Even within the context of continued budget austerity throughout the 1990's, the lion's share of financial support for a program of democratic strengthening must come directly from the Government of Panama...Given the high level of support received by the democracy strengthening program to date, we have every reason to believe that the level of commitment necessary will be forthcoming during the CDSS period.

Workforce Implications: The project will be managed by an FSN project officer in the Mission's Office of Public Administration. If necessary, project funds will be used to finance a project liaison officer to assist in implementation.

Potential Issues and/or Innovative Program Approaches: The LAC Bureau now has a decade of experience in assistance to the electoral process. This project will draw upon this experience, and will not attempt innovation.

Request for Delegation of Approval Authority: Since the proposed project does not include policy issues requiring AID/W resolution, USAID/Panama requests authority to authorize and approve both the PID and the PP.

PROJECT DESCRIPTION FOR FY 1993

Project Title: Civil Service Reform

Project Number: 525-0318

LAC Bureau Objective: Support the evolution of stable, democratic societies

Subobjective: Encourage the strengthening of competent civilian government institutions that will merit the confidence of political leaders, citizens and investors.

Funding/Type: DP - FY 1993: \$1.5 million LOP \$4.5 million

Consistency of Project with A.I.D. Country Strategy: This project directly supports the Mission Objective - CONSOLIDATION OF DEMOCRATIC PROCESSES AND INSTITUTIONS - and its first sub-objective of strengthening competent, civilian government institutions by assisting the GOP to modernize its management systems and streamline its personnel and procurement practices.

Relationship to A.I.D. Activities: The project conforms to the Agency's new Democracy Initiative, which commits A.I.D. to support effective, responsive and publicly accountable government institutions. With respect to LAC Bureau policies, the project supports the operation of adequate systems to foster and maintain professionalism, honesty and continuity in public service.

Project Description: The goal of the project is honest, competent, and transparent public institutions. The purpose of the project is to strengthen GOP administrative and management practices.

Most Western nations have concluded that career civil service systems have been effective in carrying out the affairs of government and reducing the incidence of large-scale corruption. Panama at the present time does not have a personnel system based on merit. Political patronage, a way of life under the military dictatorships, was exploited even further by Noriega. Today, GOP ministries are bloated with excessive numbers of employees, with little or no skills to perform their jobs. The new government has formed a commission to study civil service reform and to prepare draft legislation on the establishment of a career civil service.

The project will provide technical and training assistance to the GOP to implement the legislation. A personnel system will be developed that will recruit, retain, promote and dismiss public sector employees on the basis of merit and performance. Within this system a distinction will be made between policy level appointees who should be politically compatible with the President and a career service which must be free of patronage. A Public Service Academy will be developed which will provide continuous, in-service management and job training for civil servants. The project will provide technical assistance to examine issues related to the structure and function of government ministries. It will also assist the GOP to standardize and simplify government procurement practices and delivery of services.

**Section IV
Resource Requirements**

By the time this document is reviewed, virtually all of the \$450,125,000 available for Panama in FY's 90 and 91 will be obligated. USAID/Panama is in transition, moving from major cash-transfer assistance to "jump-start" the economy, to a development program. Funds from FY 90 and 91 should be largely disbursed before the end of FY 92. FY 92 will still carry the responsibilities of monitoring and reporting on funds from the FY 90 Dire Emergency Supplemental Appropriations Act (P.L. 101-302) obligated for longer-term development projects which began in FY's 90 and 91. Therefore, the Mission will continue to need a staff of 13 USDH in 1992. Reduction of one position is projected in FY 93 for a USDH level of 12 by the end of that year.

Since Panama uses the U.S. dollar as its currency, this Mission has no local currency or Trust Fund.

The CDSS which is being reviewed with this Action Plan presents a focussed program consistent with the LAC Bureau's current objectives. To implement this program, USAID/Panama will need \$27 million per year in FY's 92 and 93. Some \$17 million per year of Development Assistance will be used for technical assistance and training. Some \$10 million per year of ESF will be used to finance ICITAP's work with the Panamanian National Police and Judicial Technical Police.