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

PANAMA
PROJECT PAPER
ECONOMIC POLICY DEVELOPMENT

AID/LAC/P-642

PROJECT NUMBER: 525-0313

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

COUNTRY/ENTITY
PANAMA

3. PROJECT NUMBER

525-0313

4. BUREAU/OFFICE

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5. PROJECT TITLE (maximum 40 characters)

Economic Policy Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY

7. ESTIMATED DATE OF OBLIGATION
(Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 91 B. Quarter 2 C. Final FY 92

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

A. FUNDING SOURCE	FIRST FY 91			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total						
(Grant)	(3,100)	()	(3,100)	(5,000)	()	(5,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country	102		102	1,700		1,700
Other Donor(s)						
TOTALS	3,202		3,202	6,700		6,700

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	910	710				3,100		3,100	
(2) FDA	910	710				1,900		1,900	
(3)									
(4)									
TOTALS						5,000		5,000	

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

700 720 930

11. SECONDARY PURPOSE CODE

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

A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To assist Panama in expanding and strengthening the process of economic policy making.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
04 92 0 29 4

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

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

17. APPROVED BY

Signature: Thomas W. Stukel
Title: Thomas W. Stukel
Mission Director

Date Signed MM DD YY
10 14 08 9 11

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

MM DD YY

PROJECT AUTHORIZATION

Country : Panama
Project Title : Economic Policy Development Project
Project Number : 525-0313

1. Pursuant to Part II, Chapter 4, Section 534 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Economic Policy Development Project for Panama (the "Cooperating Country") involving planned obligations of not to exceed Five Million United States Dollars (\$5,000,000) in grant funds ("Grant") over a three-and-a-half year period from the date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process and administrative approval, to help in financing the foreign exchange costs of the Project. The planned life of project is three and a half years from the date of initial obligation.

2. The Project will assist the Government of Panama to expand and strengthen the process of economic policy making. The Project will finance technical assistance, training, and assorted office equipment and personal computers. The Project will also provide funding to the GOP to initiate an examination of alternative management structures for the Panama Canal.

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

A. Source and Origin of Commodities, Nationality of Suppliers of Services.

Commodities financed by A.I.D. under the Grant shall have their source and origin in the United States (A.I.D. Geographic Code 000) except as A.I.D. may otherwise agree in writing. The suppliers of commodities or services shall have the U.S. as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

B. Conditions Precedent to Disbursement

Prior to first disbursement under the Project, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may agree in writing, furnish to A.I.D. in form and

substance satisfactory to A.I.D. the following:

- (i) A legal opinion from the Office of the Attorney General for Administration of the Republic of Panama, or other counsel acceptable to A.I.D., stating that this Agreement has been duly authorized, or ratified by, and executed on behalf of the Cooperating Country, and that it constitutes a valid and legally binding obligation of the Cooperating Country in accordance with all of its terms and conditions;
- (ii) A statement of the name of the person holding or acting in the office of the Cooperating Country and of any additional representatives, together with any specimen signature of each person specified in such statement;
- (iii) A statement of the name of the persons designated as the Project coordinators for the Ministry of Planning and Economic Policy.

C. Covenant

The Government of Panama has named a Canal Area Advisory Committee with public and private sector representation. USAID/Panama and the Government of Panama agree that this committee shall serve as the steering committee for canal-related activities funded under the Project.

D. The following waivers to A.I.D. regulations are included in the Project Paper for your approval:

- (i) A source/origin commodity procurement waiver from A.I.D. Geographic Code 000 to Code 941 and Panama in the amount of \$150,000 to permit the Project to procure office equipment and furnishings, and training materials, in Panama and other Latin American countries, and

d.

- (ii) A nationality waiver in the amount of \$1,066,000 from AID Geographic Code 000 to AID Geographic Code 941 and Panama to permit procurement of professional and outside services required for the Economic Training and Canal Management and Development Plan components of the Project from Panama and other Latin American countries.



Thomas W. Stukel
Mission Director

Date: 4/2/91

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TABLE OF CONTENTS

I.	SUMMARY AND RECOMMENDATIONS	1
A.	Background and Rationale	1
B.	Project Description	2
C.	Project Issues	3
D.	Recommendations	4
II.	BACKGROUND AND RATIONALE	4
A.	Background	4
1.	Macroeconomic Overview	4
2.	Economic Reform Efforts of the Endara Government	7
B.	Constraints to Economic Policy Reform	9
1.	Public Sector Institutional Weakness	9
2.	The Failure to Build Consensus	11
3.	Economic Data	12
C.	Project Strategy	13
D.	Relationship to USAID/Panama Strategy	15
E.	Relationship to Other Donor Programs	17
III.	PROJECT DESCRIPTION	17
A.	Project Goal and Purpose	17
B.	Project Components	18
1.	Economic Policy	18
a.	Social Security	19
b.	Budget Policy and Administration	20
c.	Privatization	21
d.	Labor	21
e.	Trade Reform	22
f.	Macroeconomic Policy	23
2.	Economic Training	24
3.	Canal Management and Development Plan	25
IV.	PROJECT MANAGEMENT AND IMPLEMENTATION ARRANGEMENTS	28
A.	Project Management	28
B.	Financial Plan	29
C.	Monitoring, Evaluation and Audit Plan	33
D.	Implementation Plan	33
E.	Gray Amendment Considerations	34
F.	Procurement Plan	34
V.	PROJECT ANALYSES	34
A.	Technical Analysis	34
B.	Economic Analysis	35
C.	Social Soundness	37
D.	Administrative Analysis	37
E.	Environmental Considerations	38
VI.	NEGOTIATING STATUS, CONDITIONS AND COVENANTS	38

ANNEXES:

- A. Procurement Plan**
- B. Statutory Checklist**
- C. Grantee Requests**
- D. Initial Environmental Examination**
- E. USAID Authorization Delegation**
- F. Logical Framework**
- G. Institutional Profiles**
- H. Report on the Design of an Economic Reform Project**
- I. Project Budget Detail**
- J. List of Officials Interviewed During Project Design**

I. SUMMARY AND RECOMMENDATIONS

A. Background and Rationale

The justification for the Economic Policy Development Project can be best understood in the context of Panama's political and economic history, including the recent emergence from the turmoil brought on by the Noriega regime.

In response to the global economic conditions of the late 1970s, Panama adopted expansionary fiscal policies. These ultimately increased the deficit of the nonfinancial public sector to unsustainable levels. As a consequence, Panama was forced to adopt a strong adjustment program in 1983. Two successive Structural Adjustment Loans were negotiated with the World Bank, and implemented over the period 1983-1987. USAID/Panama assisted with the adjustment program by financing a high-profile economic policy analysis project.

Increased efficiency and expanded output resulted during the next few years, with growth accelerating to an average of three and one half percent per annum over the period of 1985-1987. It was shortlived, though. Political instability and a retreat from the commitment to reform in late 1987 sidetracked the economic recovery. Growing civil unrest and the popular demands for a change in government spurred increased capital flight and depressed output and investment. The political crisis also precipitated events leading to the suspension of USAID's programs in Panama.

The crisis deepened when the Noriega regime forced President del Valle out of office. The U.S. responded by imposing economic sanctions in April of 1988 to protest the derailing of the democratic process. The economic sanctions devastated the Panamanian economy during 1988 and 1989. Banking center activities quickly collapsed. The public deficit ballooned from only one percent of GDP (1985-87) to 11 percent in 1988. With no central bank to tap, the only means that the Government of Panama (GOP) had to finance the deficit was nonpayment of external and domestic debt.

In December of 1989, with the surrender of General Noriega, the U.S. government lifted its economic sanctions against Panama. The incoming Endara government inherited an economy in recession and with its public finances in disarray. The process of structural adjustment and policy reform, begun in the mid-1980s, had been left incomplete.

Upon taking power, the Endara government put economic policy reform among its top priorities for immediate attention. The urgency of addressing economic policy issues was, and still is, partly derived from Panama's need to normalize relations with external creditors and make arrangements for the clearance or

rescheduling of external payments arrears.

Demonstrating its conviction, the GOP proposed a wide-ranging reform program. But, after several weeks of intense bilateral consultation between the GOP and the individual sectors to be affected by the economic reforms, the GOP watered-down the original proposal. Not unexpectedly, the international financial institutions (IFI) have found the diluted program to be insufficient as a justification for renewed structural adjustment lending. The IFIs and USAID have made clear that much technical assistance will be required to finalize and, in some cases, implement the policy reform proposals.

The delays and false starts in initiating a strong reform program have been due to public sector institutional weaknesses and the failure on the part of the GOP to build a consensus around its reform program. As demonstrated over the last year, the process of policy discussion and consensus-building in Panama does not include public sector officials at the levels of government where economic policy must be implemented, does not attempt to identify and garner support from beneficiaries, and does not nurture economic talent within the public sector in a way that would strengthen the local capability to formulate and analyze policy reform proposals.

The Project strategy, therefore, will be directed toward increasing participation in economic policymaking both within the Government and in Panamanian society at large, and toward strengthening the quality and usefulness of economic analysis used in policymaking. USAID's Economic Policy Development Project will not only provide resources to analyze and implement policy change, but also to strengthen the skills and process needed to bring about the reforms.

One policy issue of special Project concern relates to Panama's assumption of responsibility of the Panama Canal at the end of 1999. No planning for this event took place under the Torrijos-Noriega regimes, and the Endara government has not yet been able to spare staff time and resources to begin work on this question. As a result, the 23-year preparation period contemplated in the Carter-Torrijos Treaties of 1977 has been collapsed into less than ten years.

B. Project Description

The purpose of the Project is to assist the GOP in expanding and strengthening the process of economic policy making. The Project will have three components with activities that strengthen and expand that process: Economic Policy, Economic Training, and Canal Management and Development Plan.

The Economic Policy component will fund technical assistance

to MIPPE for the development and implementation of economic policies. The technical assistance will be conditioned on MIPPE's modifying the way it analyzes and proposes economic policy. All technical assistance requests from MIPPE will have to identify as appropriate: the economic policy to be formulated or implemented; the time frame for implementation; the multi-ministerial task force assigned to it; the necessary role the advisor is expected to play in bringing about change; a description of how the Legislative Assembly will be advised of the findings and recommendations of the task force; and how the findings and recommendations of the task force will be made public.

The Economic Training component will initiate an in-house training program to upgrade the economic capacity within the GOP. It will complement the technical assistance efforts of the Economic Policy component by concentrating part of the training on priority areas for economic reform.

The Canal component will provide funding to assist the GOP and private sector to identify and quantify the impact of the choices Panama must make. To assure that the alternatives receive full consideration, the GOP will name a multisectoral Executive Committee or its equivalent to be responsible for producing an analysis of Canal management alternatives. The committee will also be responsible for the public dissemination and discussion of these alternatives through conferences, seminars, media oriented events, and public hearings.

By the end of the Project it is expected that: MIPPE will have initiated a process which incorporates implementing ministries in policy analysis, formulation, and debate; the MIPPE initiated process will lead directly to significant economic policy changes (non-conditional) in three sectors; economic information necessary for policy development will be supplied in a timely manner; and a national decision will have been taken regarding the management mode for the Canal, and plans for implementation of this mode will be underway.

C. Project Issues

At the review on March 12, 1991, Mission staff identified two issues which were discussed and analyzed at length. The first issue concerned a potential conflict with the local university economic program. Some even felt that the Project should explore working with the local university.

It was concluded that the time is not opportune for USAID to work directly with local universities and that the Project's design for in-house training by a contracted institute was proper. Furthermore, the perception of a foreign institute assuming a function that should belong to the local university

economic's department may dissipate as some local university professors will probably be hired to give classes. Finally, the competition for the training component will be open to Latin American education institutes, some already established in Panama, reducing the impression the US imposing a new foreign university onto a small country.

The second issue pertained to role of public debate in economic policy making. The review committee questioned the adequacy of the Project's involvement of the public in policy making and of the legislative assembly.

It was pointed out that the training component included funding for public conferences and publications on pressing economic policy topics in Panama. The Canal Management and Development Plan contemplates the use of public conferences.

As a result of the review: funding for conferences and publications was budgeted for use in disseminating the work of the technical advisors contracted under the Economic Policy component; a Project condition was added to require MIPPE to advise on how it will notify the Legislative Assembly of the findings of Project-funded technical work; and the economic training activities were modified to allow the legislative staff to attend.

D. Recommendations

The proposed Project fully supports all three objectives of the USAID/Panama foreign assistance program: it supports democratic institutions and processes, it encourages Panama to move to a more open and competitive economy, and it assists the GOP to prepare itself to assume responsibility for the Canal. The Project has been designed so that it is technically, financially, socially, and economically sound. Therefore, it is recommended that the USAID/Panama Mission Director authorize the Project Paper.

II. BACKGROUND AND RATIONALE

A. Background

1. Macroeconomic Overview

The justification for an Economic Policy Development Project can best be understood in the context of Panama's recent emergence from deep political and economic turmoil. This section provides background on the Panamanian economy and on the events leading to the country's current efforts to implement policy reform.

Panama's economy possesses a structure rooted in geography. Situated on a narrow isthmus between North and South America and bounded by the Pacific and Atlantic Oceans, the country is a natural hub of international trade and commerce. Its attractiveness as a location for a transoceanic canal inspired a chain of events culminating in the early 1900's with Panama's independence from Colombia and the U.S. decision to finance the construction of the Panama Canal. In return, the new Panamanian government ceded its sovereignty over a large portion of its terrain which became known as the Canal Zone.

The completion of the Panama Canal in 1914 made transport the leading sector of the economy into the early 1970s. Two additional centers of growth then emerged. Banking services grew rapidly once favorable banking legislation was passed in 1970. According to the World Bank, the sector grew by 11 percent per year during the decade, so that by the early 1980s there were 130 banks active in Panama employing over 7,000 people. Similar growth was seen for economic activity associated with the Colon Free Zone. Warehousing, transshipment and related free zone activities grew by 14 percent per annum during the same period. By 1990, shipping, banking and other private sector services amounted to more than eighty percent of GDP.

Agriculture and manufacturing are less important as a component of GDP than in other developing countries, contributing less than 10 percent each. The small size of these two sectors in part is due to Panama's comparative advantage in services, but also stems from the restrictive policy environment -- characterized by high tariffs, quantitative import controls, high energy costs, and inflexible labor laws -- which affects agriculture and manufacturing.

In the late 1970s, Panama followed the route of many other countries of the region in attempting to compensate for world recession and higher petroleum prices with expansionary fiscal policies. This strategy gained the country some GDP growth in the short term, but at a cost. The deficit of the nonfinancial public sector jumped from marginal levels in the late 1970s to over ten percent in 1982.

Because Panama uses the U.S. dollar as its currency, it cannot cover a fiscal deficit by printing money. Borrowing, either domestic or external, is the only source of deficit financing that Panama has available. Panama's fiscal policies of the early 1980s resulted in a public debt to GDP ratio of more than 80 percent by 1983.

The increased level of foreign borrowing needed to maintain growth proved unsustainable, and Panama was forced to adopt a strong adjustment program in 1983. Two successive Structural Adjustment Loans were negotiated with the World Bank, and

implemented over the period 1983-1987. During the same period, USAID/Panama financed a high-profile economic policy analysis project within the Ministry of Planning and Economic Policy (MIPPE) that served as the intellectual base for discussion of economic reform. The reform program adopted depended on reduction of the public sector deficit accompanied by structural reforms in the areas of trade policy, agriculture, industry and labor policy.

Increased efficiency and expanded output resulted during the next few years, with growth accelerating to an average of 3.5 percent per annum over the period of 1985-1987. Panama was also able to alleviate its heavy public sector debt burden through rescheduling of commercial and official debt.

Political instability and a retreat from the commitment to reform in late 1987 sidetracked the economic recovery. Growing civil unrest and the popular demands for a change in government spurred increased capital flight and depressed output and investment. For example, between June and December of 1987, offshore deposits fell from \$22 billion to only \$4.5 billion. Panama failed to meet the conditions for the second tranche of the World Bank Structural Adjustment Program II, and lost the disbursement. The political crisis also precipitated events leading to the suspension of USAID's programs in Panama.

The crisis deepened when the Noriega regime forced President del Valle out of office. The U.S. responded by imposing economic sanctions in April 1988 to protest the derailing of the democratic process. Included in the sanctions were the freezing of payments to the GOP relating to tax receipts from U.S. companies and canal fees, suspension of the Federal Reserve Bank's check clearing arrangement with the National Bank of Panama, and the freezing of the Bank of Panama's account with the Federal Reserve Bank.

The economic sanctions devastated the Panamanian economy during 1988 and 1989. Banking center activities quickly collapsed. Domestic credit fell by more than 17 percent, with lending to the agricultural sector and letters of credit for import activities sharply curtailed. Real GDP fell by 16 percent in 1988, led by declines in the manufacturing, construction and financial sectors.

The economic crisis was also reflected in the country's fiscal accounts. Total revenue fell from 31 percent of GDP (1985-87) to 23 percent in 1988. Total current expenditure was only marginally reduced, while capital expenditures were slashed to less than 40 percent of their 1987 level. The public deficit ballooned from only 1 percent of GDP (1985-87) to 11 percent in 1988. With no central bank to tap, the only means that the GOP had to finance the deficit was nonpayment of external and

domestic debt. During 1988, \$460 million in external interest and domestic payments arrears accumulated, equal to more than ten percent of GDP.

The economy did not improve in 1989. GDP declined by a further one percent, and the fiscal deficit remained high at 11 percent. External payments arrears continued to accumulate. The external debt by the end of the year exceeded \$5 billion. Of this amount, more than \$2.4 billion represented arrears, including \$540 million in nonreschedulable arrears to the World Bank, IMF, and Inter-American Development Bank.

In December of 1989, with the surrender of General Noriega, the U.S. government lifted its economic sanctions against Panama. The incoming Endara government inherited an economy in recession and with its public finances in disarray. Civil disturbances and looting that occurred in late December of 1989 damaged the country's private sector productive capacity, while public sector infrastructure was already in bad shape due to several years' neglected maintenance. In addition, the process of structural adjustment and policy reform, begun in the mid-1980s, had been left incomplete and with some backsliding.

2. Economic Reform Efforts of the Endara Government

Upon taking power, the Endara government put economic policy reform among its top priorities for immediate attention. The urgency of addressing economic policy issues in part derived from Panama's need to normalize relations with external creditors and make arrangements for the clearance or rescheduling of external payments arrears. Current international norms for addressing severe indebtedness require the debtor country to come to agreement on a Stand-by program with the IMF and a structural adjustment program with the World Bank. Part of the USAID foreign assistance package of \$420 million approved for Panama in mid-1990 is also linked to economic reform. Disbursement of the U.S. contribution to an arrears clearance effort (\$130 million) plus its policy-based economic recovery program (\$114 million) is conditioned on Panama's adoption of a structural adjustment program.

Early in its administration, the new GOP took steps to repay and reschedule its external payment arrears in an orderly fashion. The leadership asked the IMF, World Bank and Inter-American Development Bank to begin the process of designing programs. Early public statements by President Endara and his Cabinet indicated a willingness to reorient national economic policy toward greater openness to world trade and greater domestic efficiency, both in the public sector and in resource allocation within the private sector.

The GOP outlined this conviction in a document called the

"National Strategy for Development and Economic Modernization," (the "Strategy") which was presented to the public in June 1990. (The content of the Strategy draws heavily from the policy analysis work financed by the prior AID project in the mid-eighties, most of whose recommendations had never been implemented.) In September, a subsequent economic policy paper was published by the GOP, titled "Guidelines for Development and Economic Modernization" (the "Guidelines"), which took the elements of the strategy, and transformed them into an action plan containing dates and objectives for implementation of the Strategy.

Between the publication of the Strategy and the Guidelines there had been several weeks of intense bilateral consultation between the GOP and the individual sectors to be affected by the economic reforms. The consultations revealed strong concerns by each sector about aspects of the reform that would take away special protection or treatment. Few stepped forward to urge implementation of the adjustment program intact. The GOP came away from the consultations convinced that the Strategy as initially envisioned would not fly politically, and that elements of the Strategy that were opposed by individual groups would have to be reconsidered.

The outcome of the negotiations with the various sectors of the Panamanian economy was that the Guidelines were developed as a watered-down version of the original Strategy. Measures were reduced in scope and ambition and timetables were stretched out. For example, trade liberalization ended as a reduction in tariffs to a maximum rate of 60 percent in industry and 90 percent in agriculture, to be phased in over three years, a far cry from the tariff reforms being adopted elsewhere in Latin America. While the announcement of the Strategy and initial actions taken to implement it garnered Panama the \$30 million first tranche disbursement of AID's Economic Recovery cash transfer, \$214 million in ESF awaits adoption of a serious reform program for disbursement.

Not unexpectedly, the international financial institutions found the Guidelines to be insufficient as a justification for renewed structural adjustment lending. While the IMF, seeking only restored fiscal balance, was quickly able to finalize negotiations for a monitored program with Panama, the World Bank and Inter-American Development Bank have entered into a lengthy negotiation effort to strengthen the content of the Guidelines more in conformance with a serious adjustment effort. (Specifics of a policy reform program for Panama will be outlined in a later section of this paper.)

The lack of a specific economic policy may have dampened Panama's economic recovery in 1990, as investors and businessmen

were uncertain about how the "rules of the game" might change. Economic growth is estimated to have reached only 3.5 percent in 1990 (although private sector economists believe that the official figure, for methodological reasons, is too low). The fiscal deficit was reduced to 3.4 percent of GDP, partly because of a slow start in formulating and implementing a public sector investment budget.

To help bolster the policy dialogue, in July of 1990, USAID/Panama made funds available to MIPPE for a technical assistance contract for consulting services in the area of economic policy. MIPPE used the funds to contract two long-term advisors specializing in macroeconomic policy reform, and numerous short-term contracts related to specific reform proposals. The short-term advisors have assisted with analyses of the petroleum sector, social security, the health delivery system, tariff reform, privatization, housing and ports. USAID's funding of technical assistance to MIPPE has not only produced some necessary analyses for reform, but also provided insights to the obstacles to the development and implementation of a comprehensive economic policy program in Panama.

The World Bank and Inter-American Development Bank recently completed a pre-appraisal mission for their joint Economic Recovery Loan. The Government has been informed of the IFIs' "bottom line" position regarding the contents of an acceptable reform program. While the Government has options with regard to how it implements the program, the negotiations with the IFIs and USAID have made clear that much technical assistance will be required both to finalize the policy reform proposals, and in some cases, for their implementation.

Because the Government of Panama's plate has been full during its first year with the need to reestablish order, restore democratic rule, and plan its economic reform program, longer-term issues have received scant attention. One important policy issue relates to Panama's assumption of responsibility of the Panama Canal at the end of 1999. No planning for this event took place under the Torrijos-Noriega regimes, and the Endara government has not yet been able to spare staff time and resources to begin work on this question. As a result, the 23-year preparation period contemplated in the Carter-Torrijos Treaties of 1977 has been collapsed into less than ten years.

B. Constraints to Economic Policy Reform

1. Public Sector Institutional Weakness

The delays and false starts observed over the past year as Panama has attempted to adopt and implement a structural adjustment program are partly due to the same institutional weaknesses observed throughout the Panamanian government, which

resulted from the destruction of democratic institutions during the Noriega regime. As the new government was formed from a coalition of parties, the executive branch is more susceptible to internal rivalries and disputes than if clearly controlled by one political party. Both of these factors have made it difficult for the Panamanian government to achieve internal consensus for economic policy reform.

The incoming Endara government has found it difficult to trust and to gain the trust of the career public sector employees, due to their links with past administrations. The problem has been compounded by the partisan frictions found within the executive branch. In the Ministry of Planning and Economic Policy (MIPPE), this situation manifests itself in how economic policy reform is planned and discussed. A small group in MIPPE close to the Minister has been the main and frequently the only GOP participant in the formulation of policy and dialogue with the IFI's and USAID. This is an extremely narrow political base offering very little insurance for continuity in the process of policy dialogue.

While USAID's initial technical assistance support has been closely coordinated with the Minister's Office in MIPPE, the effort has been impeded in some cases by the lack of communication between that office and the rest of the Ministry. Policy reform requires the participation of professionals at the middle levels for administrative follow-through and implementation. The lack of coordination with the middle levels of MIPPE means that the process bogs down because the few people who participate are grossly overburdened with the magnitude of the work, and become bottlenecks to the process.

The policy analyses undertaken with USAID technical assistance (as well as the analyses produced by the IFIs) have seen only limited distribution within the Government. This poses difficulty given the functional distribution of labor within the executive branch. MIPPE is charged with overall economic planning (including formulation of the budget) and preparation of policy reform proposals. The other Ministries are supposed to participate in the policy formulation process, and in most areas, implement the reforms once they have been put in place. Inadequate consultation and sharing of information between MIPPE and the other Ministries have caused delays in the elaboration of policy reform, and played into the hands of those who wish to draw the discussion of economic policy into the political fray.

A related constraint relates to the position and training of the economists that work within the public sector. The local universities that educate the majority of the economists hired by the public sector are oriented more toward social and political economy, and teach little of the theory and technique required for policy or program analysis. Observers of the public sector

reported to the design team that there is a generalized lack of confidence by high level public officials in their economic staff at the middle level, a phenomenon that was also cited in many of the Ministries. There are a few U.S.-trained economists with degrees beyond the B.A. level, but in some cases even they are treated with distrust, as having access to a scholarship to study in the U.S. is viewed as a linkage to the previous regime. Quite a few public sector economists were sent abroad in the seventies and eighties to study economics in the Soviet Union or Cuba.

The result is that, with few exceptions, economists are relegated to low level positions and are rarely consulted or involved in discussing or implementing policy reform. If technical analysis is required for the design of reform, the GOP tends to look to outside consultants. GOP economists participate in the debate on reform by producing statistics for the IFIs, but not by advising the serious policymakers in their respective Ministries. As a result, morale is low at the very levels that will be essential to consensus-building and successful fine-tuning and implementation of policy reforms.

2. The Failure to Build Consensus

Consensus-building is a necessary condition for any economic reform program to be successful. Yet, the process of reform in Panama has been delayed or the proposed reform diluted because ambitious plans lacked a consensus not only within the government proposing them, but also among the diverse groups that make up the national population.

It is natural and expected that individual interest groups will seek to block policy change that negatively affects their economic position. Rent-seeking behavior and opposition to change in the status quo by groups benefiting from protective government policies occur in all countries. Where economic benefits and rents from protective policies get capitalized in asset values, reform may actually bring true financial losses to those previously enjoying protection. For example, an investor who buys a factory whose product has been awarded a monopoly by the state will pay a price to the seller that includes the economic value of that monopoly.

The opposition of particular interest groups to policies that would eliminate their long-standing privileges may be the single most important obstacle to reform in any country. The experience with the negotiation of the 1990 "Guidelines" indicates that Panama is not immune. There is no magic formula or technical assistance that can make opposition to reform disappear. Nevertheless, how the Government manages its consensus-building process can be key to its success or failure.

One problem has been on the analytical side. Policy analyses conducted by MIPPE, the IFIs and with contracted technical assistance have seldom gone far enough to quantify benefits and identify the beneficiaries of policy reform. Not having this information has hurt the Government's ability to garner support for reform. Locating and informing groups whose incomes will be improved if reforms are made can go far to neutralize opposition to reform, as the Government can nurture effective allies in the private sector. Quantifying the potential losses to the protected sectors would also expose to public scrutiny the extent of their privileged position.

Also, policy analysis from MIPPE and the IFIs has focused on the measures needed to regain economic efficiency across the economy. Very little attention has been paid to what sort of policy measures could facilitate the process of adjustment or what measures could soften the social impact of the adjustment process. Given the importance of designing the structural adjustment package first, the priorities have been the correct ones. Nonetheless, it is likely that the lack of complementary policies facilitating the adjustment and softening its social impact have contributed to the resistance in Panama to accepting the proposed economic reforms.

A final problem is that the Government has been reticent to share information with the public on Panama's economic problems and the proposals for reform. To give one example, none of the policy studies funded under the USAID/Panama policy analysis project of the mid-eighties were released publicly, nor have the studies produced in the early months of the Endara administration under USAID technical assistance been provided to the public. A more open policy toward release of information could assist the Government in defusing opposition.

3. Economic Data

The quality of economic data produced by the Government of Panama is as good as, or better than, the data in the other Central American countries. Public employees have been well trained in the application of IMF and World Bank methodologies for compiling accounts, and follow these methodologies closely.

Nonetheless there are several problems. Some data series are published with substantial lags. This is not due to lack of staff (there are more than 400 persons working in the Statistics and Census Department of the Controller General Office, which has the chief responsibility for economic data) but to the manual preparation of most statistics. The Statistics and Census Department has only two personal computers for its staff to use. The Office of External Debt in MIPPE, which manages the public sector external debt records, does not have a personal computer, but relies on borrowing the computer of another office when it is

free. Budgetary austerity and excessive levels of staffing have left little money to finance equipment purchases. The reorientation of public finances should correct this imbalance over the medium term, but this prospect is of little help to those offices whose work is months or years behind now because of lack of automation.

Another problem was mentioned earlier - the lack of well-trained economists. The public sector statistical offices have the capacity to compile accounts according to the IFI methodologies in which they have been trained, but few trained economists are available to oversee the work. As a result, methodological questions regarding economic data tend to wait until the next IFI visit to Panama to be resolved.

C. Project Strategy

The constraints to economic policy making that the Economic Policy Development Project will address are the limited number of Panamanians participating in the process of policy formulation and the limited depth of economic debate in promoting policy changes. The process of policy discussion and consensus-building at present unnecessarily risks failure because (1) it does not include public sector officials at the levels of government where economic policy must be implemented, (2) it does not attempt to identify and garner support from beneficiaries, and (3) it does not nurture economic talent within the public sector in a way that would strengthen the local capability to formulate and analyze policy reform proposals. The Project strategy will be directed toward increasing participation in economic policymaking both within the Government and in Panamanian society at large, and toward strengthening the quality and usefulness of economic analysis used in policymaking.

The IFIs will reopen lending to Panama if policy conditionality is met. USAID's Economic Policy Development Project has a different focus of not only providing resources to analyze and implement policy change, but also to strengthen the skills and process needed to bring about the reforms identified.

As discussed earlier, the IFIs are negotiating a structural adjustment program with the Government of Panama. As of March 1991, there is optimism but no ironclad assurances that the parties will reach agreement on a reform package. Nor can the timetable of reform be estimated at this time. Realistically, there is also a possibility that particular reforms will be implemented to comply with the conditionality, only to be diluted after the assistance has been granted.

For these reasons, the Project strategy is to provide assistance with a long-term focus that will be useful regardless of how the IFI negotiations end. Project-funded technical

assistance will be available to the GOP for support in formulating or implementing reform. The expectation is that the majority of advisors will be contracted for technical tasks requiring short assignments. Technical assistance will only be available, however, to support the activities of working groups or task forces of Panamanian public sector officials and technical level employees organized to coordinate a particular reform. This format will help ensure that policy studies are not commissioned by a few at the top, but rather disseminated for broad discussion. It will also avoid a situation where external assistance is contracted for analyses that could be carried out by public sector technicians. In this way, funds will be complementary to efforts of the Government of Panama. By assigning technical assistance to working groups, there is more opportunity for transfer of technical skills to staff of the Government of Panama.

The Project will also develop an in-house training program for public sector economists to upgrade their skills in economic theory, statistical techniques and analysis. The program will be topically relevant to the Panamanian economy and cost-effective. Training will be open to all public sector economists, and will be particularly helpful to Ministries that now suffer a skill shortage in the economic area.

Finally, the project will provide resources for policy analysis for Panama's most important economic asset, the Canal. Concern for the future viability and neutrality of the transoceanic Canal is at the center of U.S. foreign policy interests in Panama. One unfortunate legacy of the Torrijos-Noriega dictatorship is that much of the planning period that Panama counted upon to prepare for assuming the responsibility for the Canal was lost. Panama has less than ten years to organize itself politically, administratively and psychologically to be in charge of the Canal, an asset that accounts directly for ten percent of national income. This will be an historically radical change for a country that has been until now only a passive beneficiary of the Canal.

The present Government recognizes the challenge ahead. To date, however, the pressing short-run imperatives of reestablishing law and order and consolidating democratic rule have pushed the Canal issue to the back burner. In the absence of action by the Government of Panama to initiate a national debate and take necessary decisions regarding the future of the Canal, no other institution inside or external to Panama can step in and meet the need for action. The Panama Canal Commission has no mandate to prepare the Government of Panama for the future responsibilities it will face, nor can any private sector or political group act on its own.

The longer key decisions are delayed - decisions such as how

Canal operations will be managed once under full Panamanian control - the greater the risk they will be ill-considered and inadequately vetted with the national population. Careful systematic planning, spanning the decade of the nineties and controlled by not just one but several elected Panamanian administrations, is the best guarantee that a viable, neutral Canal will continue to operate efficiently in the next century. For the international shipping industry, evidence now that such a process is taking place will be an important factor in considering its plans to use the Canal route in the future or to look to alternatives. In the absence of such evidence, and looking at past Panamanian management of large capital assets such as the railroad, ports and electric company, the risk that international shipping companies may well take decisions that will render the Canal irrelevant by the time it passes into Panamanian control cannot be ignored.

Many doubts are being expressed, both by Panamanians and by voices outside of Panama, about the country's ability to shoulder the responsibility for the Canal. The technical assistance areas listed in the project description section are ones where USAID/Panama can tap its comparative advantage and at the same time help Panama provide visible evidence that the country is preparing responsibly for the year 2000, in full consultation with the Panamanian people.

D. Relationship to USAID/Panama Strategy

The three broad objectives of the USAID/Panama foreign assistance program are (1) supporting democratic institutions and processes, (2) encouraging Panama to move toward a more open and competitive economy, and (3) assisting the Government of Panama to prepare itself to assume responsibility for the Canal.

The Economic Policy Development Project supports all three objectives. Its technical assistance and training programs will help strengthen the executive branch's capability to analyze, design and implement economic policy initiatives, with fuller participation both within the public sector and of society at large. This aspect of the project is consistent with the goals of other activities in the Mission's portfolio, such as the Financial Management Project, the Tax Administration Project, the Administration of Justice Project, and the Legislative Development Project (LAC Project 598-0770) which seek to rebuild institutions of democratic government that were damaged during the Torrijos-Noriega dictatorship.

The policy initiatives that will be undertaken with technical support from the project are the actions necessary to open the Panamanian economy to world markets and to promote greater competition within domestic markets. Finally, the Economic Policy Development Project will be the main vehicle

during FY 1991-1994 for the Mission to pursue the third objective of assisting the Government of Panama to prepare for the Canal transition to Panamanian control.

E. Relationship to Other Donor Programs

The Economic Policy Development Project was developed in close collaboration with the International Monetary Fund, the World Bank, and the Inter-American Development Bank. Careful coordination was and will continue to be necessary, so that project technical assistance does not duplicate activities of other donors, and to make sure that funds are channelled to the highest priority reforms with the greatest potential payoff to the Panamanian economy and population.

The donors are in agreement with the Panamanian diagnosis of the distortions and policy weaknesses affecting the economy, as expressed in the June 1990 Strategy. Finalizing the specific package of actions to be implemented, however, has taken more time than originally anticipated, and has the potential to, in the worst case scenario, drag out over the remainder of 1991. As already stated, should the GOP fail to reach agreement with the IFIs on a reform package, the Economic Policy Development Project will continue with a slightly longer time frame for the development of a credible and sound economic reform package.

USAID is assisting INDESA, a local private sector think-tank, to apply for funding from the National Endowment for Democracy for public economic policy analysis and dissemination. If they receive a grant, it will support the Economic Policy Development Project with additional activities designed to liberalize the Panamanian economy.

The IFIs have not focused on the Canal issues. The United Nations Development Programme (UNDP), however, tried to assist the past government to begin planning for the Canal transition, although there was little follow-through on the part of the GOP. The new government enlisted the UNDP to finance terms of reference for a study of reverted areas. The UNDP is interested in offering assistance if the GOP wishes to expand the study to include other areas such as Canal management or the Canal personnel system.

III. PROJECT DESCRIPTION

A. Project Goal and Purpose

The goal of the Project is sustained economic growth with benefits for and participation by all Panamanians. The USAID/Panama strategy is to promote goal achievement through programs and projects such as this one, which open the economy up with greater opportunities for investors and workers. A continuation of existing policies will exclude an unacceptably high portion of the population from participating in the benefits of increased growth.

The purpose of the Project is to assist the GOP in expanding and strengthening the process of economic policy making. The Project will have three components with activities that strengthen and expand that process: Economic Policy, Economic Training, and Canal Management and Development Plan.

By the end of the Project it is expected that: MIPPE will have initiated a process which incorporates implementing ministries in policy analysis, formulation, and debate; the MIPPE initiated process will lead directly to significant economic policy changes (non-conditional) in three sectors; economic information necessary for policy development will be supplied in a timely manner; and a national decision will have been taken regarding the management mode for the Canal, and plans for implementation of this mode will be underway.

B. Project Components

1. Economic Policy

MIPPE will soon create a special unit called the "Unidad Coordinadora" (UC) to implement the reforms of its Guidelines as well as the reforms negotiated with the IFIs. Funding under this component of the Project will support technical assistance for the UC with a few caveats. All technical assistance requests from the UC will have to identify as appropriate: the economic policy to be formulated or implemented; the time frame for implementation; the multi-ministerial task force assigned to it; the necessary role the advisor is expected to play in bringing about change; a description of how the Legislative Assembly will be advised of the findings and recommendations of the task force; and how the findings and recommendations of the task force will be made public.

The emphasis will be on short term advisors, although in certain instances, long-term advisors will be funded. Long term technical advisors will not be utilized as substitutes for activities to be performed by permanent GOP staff.

When the assistance is for economic policy formulation, the task forces will be expected to quantify benefits and costs of proposed policy changes, and identify the groups likely to benefit from the changes. If feasible, with the help of the advisor, the task forces will quantify the benefits and costs of inaction. Technical work will be accompanied by more informal statements of the rationale for the policy changes and their impact. The task forces and advisors will prepare the informal summary of their work in a format suitable for presentation to the Cabinet, legislature, or press, depending on the case. To improve national awareness of economic policy, an effort will be made to publicize the economic policy work as much as possible.

These arrangements for the use of technical assistance are expected to improve the policy making process in Panama. GOP counterparts and USAID/Panama have identified several priority economic areas where Project funds can provide needed technical assistance. While these areas are considered priority, they are based on a snapshot in an environment that changes frequently. For example, expectations for an agreement with the IFIs shift almost daily. The final arrangements could easily reorder priority areas for economic reform and revise the technical assistance needs. Given these circumstances, the priority areas, types of advisors contemplated, and amounts of assistance presented under this component are illustrative of the overall need for technical assistance and provide a reasonable basis for firm cost estimates.

a. Social Security

The social security system (CSS) represents one of the principal weaknesses of the public sector, diverting public resources away from higher priority activities. In 1988, its operating deficit was \$67 million, which rose to \$99 million in 1989 and \$143 million in 1990. In 1990, over one-half of the public sector deficit resulted from the operations of CSS. The problems of the CSS are attributable to an unrealistically high level of benefits, low retirement age, existence of special and generous pension schemes, low returns on its investment funds, and the absence of sound financial and managerial practices.

The objective of the CSS reforms is to put the pension system back on sound actuarial grounds without increasing contributions to the system by employers or employees. This will require a reduction in retirement benefits via an increase in retirement age and a reduction in the salary basis used to compute pensions. The health care component of the social security system is also underfunded, and the central government has consistently raided the system to finance national health services not directly covered by social security. For example, CSS is required to provide staff and medicines for use in national government hospitals which provide services to Panamanians who are not contributors to the system.

USAID has already funded an actuarial study for the retirement system which determined when the CSS would be insolvent. While adequate to develop reforms to postpone bankruptcy, additional actuarial work is necessary to determine the specific reduction in benefits necessary to avoid insolvency altogether.

The health care programs of the CSS and Panama also need attention. If the GOP is intent on providing national health care, it should devise a more rational institutional structure for it, establish an actuarially sound financing programs, and

institute a system to contain costs. This could include relying on private health care insurers or consolidating public healthcare financing under a governmental entity modelled after the U.S. Health Care Financing Agency.

Finally, before any fiscal reform of the CSS can proceed, the CSS must produce some reliable financial data. There is a perception that CSS is about to reduce benefits without first collecting on long overdue accounts. The CSS system for accounting and financial reporting needs to be improved. At present, the Director of the CSS does not know whether CSS has a deficit of \$65 million or a surplus of \$90 million. The first use of Project funds in this area would be for a management report to evaluate the CSS's accounting and control system.

The Project will provide funding for 18 months of short-term technical assistance for Social Security reforms. It is anticipated that over the life of the Project, the actuarial study for the pension system will require 4 person months, the analysis and reform of the health care financing problem 8, and the elaboration of financial and management reports 6.

b. Budget Policy and Administration

Both the Budget Office and the Capital Investment Planning Office are located in MIPPE. Technical capabilities in both units are limited. For example, the Budget Office operates without a cash budget program and does not have a multi-year budget instrument. Budget drafting is not automated and the skill levels of most employees need to be upgraded. The same shortcomings exist in the capital budget unit. The latter office also needs assistance in project evaluation and analysis. The same situation exists for the line ministries and decentralized agencies.

This area is a high priority for technical assistance as the GOP has been unable to define a public investment program responsive to the structural adjustment needs of the country. The Financial Management Reform Project (525-0306) to be initiated in FY 1991, will create a budget system to produce accurate annual government sector budgets. Funds from Financial Management will provide one long term advisor to MIPPE to design and implement the budget financial tracking system. The Economic Policy Reform Project will complement the establishment of the system with 24 person months of technical assistance to the Budget Office and the Capital Investment Planning Office to assist in the preparation of multiyear budget projections and to strengthen investment analysis and planning. The long-term advisor(s) will concentrate on training counterparts in the process.

c. Privatization

The GOP plans to divest of at least 15 public enterprises. These include a cement plant, a citrus company, a railroad, an agricultural crop insurance company, and a banana plantation. Progress in privatization has been slow. While a National Privatization Commission has been established, its powers are limited to making recommendations to the Cabinet. Also, as a control measure, the Contraloria requires a valuation of the state-owned firm prior to bidding. The GOP is precluded from divesting at less than the valuation. This delayed the first divestiture of Panama's defunct airline as the process had to be repeated when the market price was less than the valuation, and in fact, less than the existing debt on the airline.

USAID has funded a full-time advisor to work with the Commission to assist in preparing the documentation necessary for privatization. Under the Economic Policy Development Project, short-term technical assistance will be available to assist permanent Panamanian staff in preparing state-owned enterprises for auction. The request for technical assistance will indicate the specific foreign assistance skill needed to supplement permanent staff skills for the consummation of a sale. This component will provide for 30 person-months of short-term technical assistance. If no sales have occurred by the time of the first Project evaluation (one year), serious consideration will be given to reprogramming these technical assistance funds.

In the financial sector, the GOP has four banks. They suffer from poor lending practices, large write-offs, excessive staff, and inadequate management. If the GOP were to decide to divest the banks, short-term technical assistance would be available under the Project to assist with the divestiture. The Project will not fund technical assistance designed to salvage these institutions as public sector banks.

d. Labor

Panama's unemployment rate, estimated at 20 percent, is the product of the existing labor code as much as it is of the recent political turmoil. A rigid labor code with high costs of dismissal has severely restricted labor mobility, increased labor costs and discouraged labor productivity. These distortions, combined with other factors such as the rapid growth of the labor force, and trade and tax incentives which favor the use of capital, have resulted in high unemployment. Panamanian labor costs are among the highest in the Central American and Caribbean region.

The labor code needs to be revised to increase the flexibility of labor markets. The main issue is the ability of a

firm to hire and fire more freely. It is expected that the GOP will only prepare an action plan to revise restrictive labor practices, and not implement any actual reform. Technical assistance will be available, if needed, for the task force preparing the action plan.

It is expected that reform of the labor code will be difficult to implement, as labor will probably perceive the change as loss of job security. This is an area where technical assistance would be useful in identifying alternatives to soften the impact and increase the speed of adjustment to the reform.

An example of a policy alternative that could help soften the impact of temporary unemployment is the introduction of a nation-wide unemployment insurance program. It could be argued that the rigidities presently in the labor code for firing workers provides an unemployment insurance program to those workers presently holding a job. Of course, this unemployment insurance program is very costly and inefficient. Instead of being able to spread risks across many different firms, the labor code forces each firm to self-insure. The outcome is that the cost associated with the risk of having redundant workers is much higher than it needs to be and consequently each firm hires fewer workers. Introducing a modern unemployment insurance program would not only increase economic efficiency and overall employment, but it would also defuse union and non-organized labor resistance to the reform of the labor code. It is an important principle of economic policy design to allow for an out or offer an alternative to those affected by reform. An unemployment insurance program could play that role in Panama.

To assist with the action plan and identify alternatives ways to soften the impact of labor reform, the Project will provide for three person-months of short-term technical assistance.

e. Trade Reform

Protection is very high in Panama. The unweighted average tariff rate in Panama is about 33 percent based only on ad-valorem tariffs, with maximum tariffs reaching 270.5 percent in agriculture and 257.5 percent in manufacturing. The effective protection is much higher because of tariff exemptions on imports of inputs and capital goods. With the protection, manufacturing remains at about 10 percent of GDP and is limited mostly to protected domestic markets in construction materials, food processing, and light industries such as chemicals and furniture.

The objective of trade reform is to reduce the effective rate of protection granted to domestic industry and agriculture by first converting all specific tariffs to ad-valorem tariffs, and eventually (by 1994) lowering all ad-valorem tariffs to

around 20 percent.

Another example of economic policy that could soften and facilitate the adjustment process is the creation of a credit facility for industrial or agricultural reconversion. Such a facility could lend funds at preferential rates to those businesses affected by the structural adjustment package over a given period of time. As in the case of unemployment insurance, the credit facility would give the Government something to offer to those sectors being asked to sacrifice, and it could reduce overall opposition to the adjustment package in the private sector.

To analyze the beneficiaries and alternative ways to soften the adjustment of trade reform, the Project will provide for two person months of short-term technical assistance.

f. Macroeconomic Policy

The Project will provide funding for one long-term PhD trained economist who will give on-the-spot macroeconomic advice to senior level Panamanian leaders. He/she will serve as senior economic advisor to the UC, and will provide guidance to MIPPE, the Productive Sector Labor Commission, and the National Economic Council regarding national economic development. He will also coordinate and oversee the economic technical assistance in diverse areas such as price policies, commercial policy, labor policy, privatization, trade policy, and tax policy. The macroeconomic advisor will be responsible for assuring that the fiscal impact of economic policy program is analyzed with due professional care and properly presented.

The GOP and macroeconomic advisor will want to present many of the recommendations and findings of the task forces to the public for comments and reactions. To assist with public presentations, the technical assistance contract will include \$90,000 for conferences and publications.

Even though primarily used by MIPPE and other government economists, economic data and commercial statistics are primarily generated by the Statistics and Census Department of the Contraloria. While the compilation of data is adequate, it could be made available to a wider analytical audience in a more timely fashion if the data were processed with computers and accessible to the public on disks or other easily transferable medium. To improve the frequency and availability of economic data for policy analysis, the Project will fund the purchase of six personal computers along with the software to establish a network at the Statistics and Census Department.

The computers will be used to process data from the household survey, currently being done manually, and for

statistical reports such as those on direct foreign investment, hospital utilization rates, outpatient visits, wholesale and consumer price index, manufacturers production index, agricultural producer prices, foreign commerce statistics, import/export/re-export statistics, unemployment statistics, and assorted quality of life indices.

2. Economic Training

One finding of the Project design team was that GOP economic staff have had little exposure to neo-classical economics and economic statistics/econometrics. To address this constraint, the Project will initiate an in-house training program to upgrade the economic capacity within the GOP. It will complement the technical assistance efforts of the Economic Policy component by concentrating part of the training on priority areas for economic reform.

It is anticipated that the training program under this component will be carried out at MIPPE by an educational institution selected on a competitive basis. The competition will request proposed training programs which at a minimum must provide a certificate and/or transferrable university credit to GOP participants that successfully complete the economic series of courses.

The curriculum would include training in macroeconomics, microeconomics, economic statistics, and special economic topics. Training should require participants to make written and oral presentations. Courses and textbooks would be in Spanish. The contracted institution would be expected to utilize qualified instructors in Panama or Central America. The contract would include funding for limited international travel for macroeconomic or microeconomic professors to travel to Panama and/or for leading students to attend short-term seminars overseas.

The courses would be for the standard semester (39 hours) of instruction for macroeconomics, microeconomics and economic statistics. The contracted institution and the GOP would determine the schedule for training, although over a two year contract, the university would be expected to train 100 participants in the program. For example, the contracted institution could offer two classes of macroeconomics and microeconomics during the first part of year one, and two classes of analytic techniques and special topics during the latter part of year one. The courses could be given over the traditional semester format of three hours per week, or under a more intensive schedule such as those offered by universities during summer sessions. With class sizes of 25, the contracted institution could train 50 students per year.

The fourth course, special economic topics, would also correspond to the reform efforts before the GOP or being worked on by technical advisors funded under this Project. Funding from this component would be available for distinguished professors to give one-week long courses on topics such as tax reform, budget policy, tariff reform, regulation of public enterprises, economics of healthcare, the Canal, and national income accounts.

It is contemplated that a guest professor would use one week prior to his lectures to prepare. The preparation time would be used to tailor the instruction and discussion to Panama specific policy constraints. Towards the end of the second week, the visiting professor would be required to give a speech on his special topic which would be open to the press and the public. It is expected that the professors for the special topic program would be well known among economists and be capable of delivering the speech in Spanish.

While the criteria for trainee selection will be proposed by institutions competing for the training contract, it is envisioned that participants will be selected on criteria such as: quality of academic transcripts, potential for growth and development as an economist within the GOP, interest in the training, and anticipated use of the training within their organizations. The contracted institution would make the selection.

Staff members of the Legislative Assembly would also be allowed to apply for this economic training. Unlike the ministry candidates, Legislative Assembly staff would not have to be in positions designated as economists. They would have to demonstrate that they are, or will be, involved in economic policy matters in the legislative branch of the government.

No shortage of qualified universities interested in this Project is expected. Several qualified institutions already have offices in Panama. Two U.S. universities provide college courses at the military installations. The Harvard affiliated Central American Institute for Business Administration (INCAE) also has a local office.

3. Canal Management and Development Plan

Panama has less than ten years before it is in full charge of the Canal. The people of Panama must make a decision about how Canal management is to be structured after 1999. Presently, the management and operation of the Canal is based on a series of U.S. laws, regulations, and rulings concerning staffing, salaries, labor relations, working conditions, labor practices, and the Canal Commission itself. The U.S. legal basis for Canal operations either does not exist or, in most instances, is

completely different in Panama.

Given the period needed for analysis, public debate, and legislation on Canal management, it is important that Panama begin to identify and analyze the alternatives for management now, and put these options before the nation. Even though the nation should be involved in the determination of how the GOP structures Canal management, indications are that the public and many in the GOP are scarcely aware of Canal operations and its importance to the economy. In 1990, the Canal accounted for 10 percent of GDP and direct activity of the U.S. military bases for another four percent. Some estimates place the Canal's direct and indirect share of GDP at 25 percent.

The parameters for discussion of Canal management should be broadly defined, and include choices such as: a private sector management contract; creation of an international management board which includes not only Panama but also the major shipping countries; sale of Panama Canal shares as a public, internationally held corporation; a semi-autonomous public enterprise; or full integration into the Panamanian public sector.

To analyze and air these and other alternatives, this Project will allocate funding to assist the GOP and private sector to identify and quantify the impact of the choices Panama must make. To assure that the alternatives receive full consideration, the GOP will appoint a multisectoral Executive Committee or its equivalent to be responsible for producing an analysis of Canal management alternatives.

The committee will also be responsible for the public dissemination and discussion of these alternatives through conferences, seminars, media oriented events, and public hearings. Multisectoral representation on the committee could be achieved with representatives from the GOP Cabinet, Legislative Assembly, private sector, and non-profit organizations or university.

The GOP has already created a high-level Canal Commission made up of various ministers, legislators, and one civilian. The GOP could name this Commission as the Executive Committee, although it is generally felt that public representation for Project activities could be enhanced with expanded representation from the non-profit and private sectors.

The Executive Committee could utilize consultants and/or staff an office to oversee the implementation of Canal alternative analysis, encourage public debate, and carry out transition activities. If an office were staffed with representatives from all the ministries and agencies responsible for Canal matters, it would have the advantage of consolidating

Canal related affairs into one geographic spot for better coordination and access. At present, no fewer than six GOP entities have responsibilities for small, independent parts of Canal affairs. Project funds could be used for consultants and office equipment needs.

Once the Canal management analysis is completed and fully exposed to public debate, it is expected that the multisectoral Executive Committee would endorse an alternative management structure for Canal operations and send the recommendations to the GOP for legislative and executive approval. The GOP could then begin drafting the appropriate legal framework and implement other recommended actions.

Given the U.S. role in the construction and administration of the Canal since the last century, there are political sensitivities that would preclude USAID from taking a direct role in recommending to the Government of Panama how the Canal should be managed after 1999. USAID will not approve or reject the content of the work to be done. However, USAID will condition the assistance on the formation of a multisectoral committee and the development of terms of reference that assure that the analysis of choices includes all forms of management. The objective of this component is that the public be made aware of the importance of the Canal to Panama, all alternatives be analyzed, the transition be made as smooth as possible, and the Canal continue to operate efficiently and effectively.

Currently, the UNDP is preparing the terms of reference for the development of an elaborate planning effort for the reverted areas of the Canal. Use of the lands, infrastructure and property of the Canal Zone has barely been planned for by the Government of Panama, despite the fact that most of the Canal lands were turned over to Panama when the Carter-Torrijos treaties were signed. This has been beneficial, in one sense, as few mistakes have been made to date in the disposition of the reverted lands. At the same time, there is an urgent need for planning and development of a policy for use of the Canal areas and structures. Panama's recent reverted areas law makes a start in establishing that lands and infrastructure may be leased to the private sector, but there is much work to be done providing for the most appropriate uses.

Based on GOP approval, Project funds will contribute to the development of an integrated development plan for the reverted areas as proposed when the UNDP funded terms of reference are completed. The plan will place watershed management and employment as the overriding priorities. Protecting the Panama Canal watershed is also a component of USAID/Panama's proposed Natural Resource Management Project.

IV. PROJECT MANAGEMENT AND IMPLEMENTATION ARRANGEMENTS

A. Project Management

USAID/Panama will contract the Economic Policy Component through the 8(a) process with the Small Business Administration (SBA). Computers and office equipment for the Contraloria and the UC at MIPPE will be direct AID purchases. The Project will buy more than \$100,000 in personal computer equipment and software. The computer configuration for the Statistics and Census Department appears in Annex I Note 7. Configurations for computers to be used by MIPPE and for the Canal Management and Development Component will be developed during Project implementation. All computer purchases will be cleared by the appropriate AID/Washington offices as required by A.I.D. regulations.

The outcome of IFI negotiations may revise the technical assistance needs such that Participating Agency Service Agreements (PASA) may be more appropriate for some of the Project's consultant work. For instance, the Social Security Administration and/or the Health Care Financing Agency could be instrumental in assisting the CSS. Up to \$200,000 of the funds budgeted under this component will be obligated but not committed until the first Project evaluation is completed to determine if a PASA would better accomplish Project objectives.

USAID/Panama and the GOP will open the contract for the training activities of the Project to competition through the Request for Proposal process. The university awarded the contract will have or be required to have a local office.

The activities for the Canal Management and Development Plan would be financed through either a direct AID contract with selected consultants or consulting firms selected by the GOP executive committee.

The Chief of USAID/Panama's Office of Economic Policy and Programs will be responsible for Project management and will assign office staff as needed to assist in monitoring and implementing the Project. The Mission may contract a project-funded FSN PSC, using part of the contingency line item, to assist in project management if the need arises. The long-term Macroeconomic Advisor will also serve a project management function as the contractor firm's representative located in country.

The following table indicates the implementation and financing method for each major type of assistance.

<u>Type of Assistance</u>	<u>Methods of Implementation</u>	<u>Method of Payment</u>	<u>Amount of Assistance</u>
<u>1. Econ Policy</u>			
TA-Inst. Cont. 8(a)	Dir AID Cont	Dir Payment	\$2,142,000
Commodities	Dir AID Purch	Dir Payment	159,000
Salaries & Adm	Host Country		
<u>2. Econ Training</u>			
TA/Mat/Conf Inst. Cont.	Dir AID Cont	Dir Payment	715,000
<u>3. Canal Mgmt/Dev</u>			
TA	Dir AID Cont	Dir Payment	835,000
Commodities	Dir AID Purch	Dir Payment	85,000
Support Costs	Dir AID Reimb	Dir Payment	80,000
Salaries & Adm	Host Country		
Eval/Audit	Dir AID Cont	Dir Payment	150,000
Cont/Inflation	N/A	N/A	834,000
Total			\$5,000,000

B. Financial Plan

The Project will have a total budget of \$6.7 million. A.I.D. will contribute \$5.0 million, the GOP \$1.7. The GOP portion meets the 25 percent counterpart requirement. The standard tables to the financial plan indicate the overall allocation of financial responsibilities and the sources from which each individual project element will be financed. Since Panama uses the U.S. dollar as its unit of currency, local currency budgeting is not applicable.

The GOP will use counterpart for technical assistance to support the reform program. The source of this counterpart will be other donor loan funds. The GOP will also contribute the cost of staff on the UC, on the Executive Committee dealing with the Project's Canal funded activities, and for the time the participants are in training. Non-labor counterpart contributions will include the operating expenses for the UC, the Executive Committee, and the training space.

Sustainability is not an issue for this Project. The technical assistance to improve the policy making process and the training to raise economic analysis capacity will remain in Panama without maintenance costs. The Project requires the GOP to reallocate or reassign permanent staff to Project activities. It will not create and maintain continuous funding of new positions.

ECONOMIC POLICY DEVELOPMENT PROJECT
 PANAMA
 PROJECT NO: 525-0313

SUMMARY COST ESTIMATE AND FINANCIAL PLAN

SOURCE	LIFE OF PROJECT		TOTAL
	AID	GOP	

USE			
TECHNICAL ASSISTANCE	\$3,057,000	\$329,000	\$3,386,000
TRAINING	609,000	333,000	\$942,000
COMMODITIES	350,000		\$350,000
SUPPORT COSTS		1,038,000	\$1,038,000
AUDIT/EVALUATION	150,000		\$150,000
INFLATION	417,000		\$417,000
CONTINGENCY	417,000		\$417,000

TOTAL	\$5,000,000	\$1,700,000	\$6,700,000
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ECONOMIC POLICY DEVELOPMENT PROJECT
PANAMA
PROJECT NO: 525-0313

PROJECTION OF EXPENDITURES BY FISCAL YEAR

FISCAL YEAR	AID	GOP	TOTAL
FY 91	538,000	101,700	639,700
FY 92	1,667,000	697,500	2,364,500
FY 93	1,846,000	697,500	2,543,500
FY 94	949,000	203,300	1,152,300
	-----	-----	-----
	5,000,000	1,700,000	6,700,000

ECONOMIC POLICY DEVELOPMENT PROJECT
 PANAMA
 PROJECT NO: 525-0313

COSTING OF PROJECT OUTPUTS/INPUTS

PROJECT INPUTS	PROJECT OUTPUTS										
	SOCIAL SECURITY	HLTHCARE FINCNG	PROCUREMENT BUDGET	TRADE & CUSTOMS	PRVTZTN	LABOR REFORM	PUBLIC CORP	ECON DATA & REPORTS	ECON TRNG	CANAL PLANS	TOTAL
AID APPROPRIATED											
TECHNICAL ASSISTANCE COORDINATOR	80,000	60,000	192,000	16,000	240,000	24,000					612,000
TECHNICAL ASSISTANCE TRAINING	200,000	150,000	480,000	40,000	600,000	60,000			915,000		2,445,000
COMMODITIES	16,900	12,600	40,500	3,400	50,600	5,000	30,000	609,000	106,000	85,000	609,000
AUDIT/EVALUATION											350,000
INFLATION											150,000
CONTINGENCY											417,000
TOTAL AID	296,900	222,600	712,500	59,400	890,600	89,000	30,000	715,000	1,000,000		5,000,000
GOP											
TECHNICAL ASSISTANCE				205,000			124,000				329,000
SALARIES & OPERATING EXPENSES	63,100	47,300	151,300	77,200	189,100	18,900	39,100	333,000	452,000		1,371,000
TOTAL GOP CONTRIBUTION	63,100	47,300	151,300	282,200	189,100	18,900	163,100	0	333,000	452,000	1,700,000
TOTAL PROJECT	360,000	269,900	863,800	341,600	1,079,700	107,900	163,100	30,000	1,048,000	1,452,000	6,700,000

22

C. Monitoring, Evaluation and Audit Plan

The project will fund an independent evaluation of contractor performance and Project progress made toward achieving economic reforms at the end of the first year. Since the IFI negotiations are problematical, the first year evaluation is important to assess the output indicators and the types of technical assistance being provided. The evaluation will critically examine areas such as privatization to determine whether enough sales have been made by the end of the year and whether the Project-funded technical assistance was key to the sale taking place.

A final Project evaluation will be conducted two months before the end of the Project to assess achievement of the Project Purpose, identify other related accomplishments, determine lessons learned from Project implementation, and conclude on the need for a continuation or a follow-on effort. It is probable that further assistance will be requested to implement policy reforms analyzed and proposed as a result of this Project. It is also likely that the GOP and USAID will want to continue transition work with the Canal.

In addition to the evaluations, Project funds are budgeted for a non-federal audit of the contractors and Project activities, if requested, during the three-and-a-half year life of the Project. The audits would be conducted by firms qualified under IQCs for non-federal audits in accordance with criteria established by the A.I.D. Inspector General's Office.

D. Implementation Plan

The following Project implementation schedule serves as a general guide for initial Project activity and target dates.

<u>ACTIVITY</u>	<u>DATE</u>
Project negotiated w/GOP	3/91
Project authorization	3/91
Grant Agreement signed	4/91
GOP meets initial CPs	6/91
Request for 8(a) sent to SBA	6/91
Contract for TA signed	8/91
Contractor provides TA as needed	On going
PIO/T drafted for Training RFP	6/91
Training RFP published	9/91
Selection of university made	10/91
Econ courses started	1/92
Training courses completed	12/93

GOP forms Canal Executive Committee	8/91
Canal Executive Committee staffs office	9/91
TOR/plan prepared for Canal Mgmt. Study	12/91
Reverted areas studies begin	12/91
Canal management analysis begins	3/92
Seminars/conferences begin	1/93
Public hearings/canal mgmt. alternatives	3/93
Recommendations to Cabinet/Leg Assembly	6/93
First evaluation	9/92
Non-federal audit	2/94
Final evaluation	2/94

E. Gray Amendment Considerations

USAID/Panama will use the 8(a) program with the Small Business Administration (SBA) to contract for the technical assistance needs of this Project. Since this Project builds on the technical assistance provided by an 8(a) firm under the Immediate Recovery Program, USAID will request the SBA to consider a contract with the same 8(a) consulting firm. In the notification of its plan to place the technical assistance contract of this Project with the SBA, USAID/Panama will identify a particular source for a follow-on contract. With this contract, it is estimated a minority-owned firm would oversee up to 42 percent of the Project-funded activities.

F. Procurement Plan

A detailed procurement plan with appropriate waiver justifications can be found in Annex A.

V. PROJECT ANALYSES

A. Technical Analysis

The technical issue of this Project is not whether it can be implemented as presented, but whether the Project activities are appropriate and cost-effective. USAID assistance to MIPPE financed under the Immediate Recovery Program (525-0602) appears to have been quite effective in accomplishing desired objectives.

Providing more technical assistance with a condition to increase Panamanian participation in policy-making is not a variation that will cause technical problems for the Economic Policy component of the proposed Project. Contracting with a university to provide a training program and arranging for the development and promulgation of options studies for the Canal are also technically achievable and straightforward. The Project is, therefore, technically feasible as designed.

The focus of the Project on Panamanians adds to the technical feasibility of the Project. The design acknowledges the most cost-effective and lasting way to bring about economic change is for a widely representative group of host country counterparts to analyze, formulate, debate, and implement policy. Experience to date with economic technical assistance demonstrates the effectiveness and validity of this approach. Nonetheless, while the USAID assistance under the Immediate Recovery Program accomplished its desired objectives, it has not yet brought about an economic reform.

The technical assistance financed under the Immediate Recovery Program provided very little institution-building for policy formulation in and outside MIPPE. In fact, the narrowness of the original MIPPE policy drafting team was a contributing factor to the resistance with which many other government units received the policy initiatives emanating from MIPPE. Policy was designed within MIPPE by very few people, with the assistance of USAID financed long-term consultants.

Recognizing this, the current Project design strengthens institutions through greater counterpart participation and topic-specific economic training that upgrades the institutional capacity for policy analysis. Again, the focus is on counterparts in Panama. Long-term scholarships have a place in development, but are expensive and would not be linked as tightly to specific reforms as proposed under the Economic Training component of this Project. Therefore, no long-term training in U.S. universities is planned as part of the Project.

The Canal studies and debate are designed to be managed and directed by host country counterparts. The objective is to get the process of planning for Canal ownership started. To initiate the process any other way would be technically, socially, and politically wrong.

B. Economic Analysis

The Economic Policy Development Project will finance technical assistance and training to assist the GOP improve the process and outcomes of national policy debates. Inefficiency in resource allocation within the Panamanian economy--due to inappropriate policies which artificially inflate the cost of labor, utilities and transport and which protect a few favored industries--has caused economic growth to stagnate. Observers of the Panamanian economy project that, in the absence of reform, real growth will stagnate at levels which do not exceed 3-4% per annum. If reforms are taken, the annual growth potential is in the range of 6-8%. These calculations give an idea of the magnitude of good that economic policy reform can engender in Panama.

Adjustment policies are sometimes accused of worsening the distribution of income, of creating a "burden" which falls disproportionately on the poor. In Panama, the compelling case is that the poor already bear the burden of the lasting distortions in resource use. The costs to the economy of economic inefficiency have been primarily passed on to the consumer in the form of higher prices for basic food stuffs, gasoline, electricity and other products that are important within the consumer basket of low-income families. At the same time, the lack of jobs for one-fifth of the work force, a result of inflated labor costs, concentrates poverty on those not lucky enough to gain formal sector employment.

Clearly, there are tremendous benefits to be gained from economic policy reform in Panama. Based both on projections for Panama and the experience of other countries, it is fair to estimate that adoption of a serious reform program could stimulate an increase in real growth of 2-3% per annum over the medium term. The intent of the Economic Policy Development Project is to improve technical design of proposed reforms and, through adjustments to the public sector policy debate process, increase the likelihood that reforms will be implemented intact, and sooner rather than later. The project cost is negligible relative to the stream of benefits which could be garnered, if project assumptions about political will and other aspects of the policy change climate are correct in their optimism. The strong interest of the Endara government in reform, and its efforts to date are persuasive that political will does exist to implement needed policy change.

The training component of the project seeks longer-term benefits in improving the local capacity to analyze and discuss policy reform. The usual measure of the economic benefit of training to the individual is the increase in the wage paid, as a proxy for improved productivity. Given the financial constraints on Ministries which make raising staff salaries difficult and the likely wage freeze over the next few years, salaries of individuals trained may not reflect their increased capabilities. The observable benefit is more likely to be improved dialogue within Ministries between top levels and their technical staff, and between Ministries at both top and middle levels.

Summing up, traditional benefit-cost analysis is not a feasible methodology for a public sector institution-building project. This is not to say that the project output--an improved economic policy framework--will not produce clear, tangible, economic benefits. That the magnitude of these benefits can be large--an additional 2-3 percentage points in real GDP growth over the rest of the decade--is evident in projections made for the Panamanian economy and in experiences with reform elsewhere.

C. Social Soundness

This Project does not affect socio-cultural practices, nor is implementation of the Project activities subject to difficulties resulting from any socio-cultural factors. Technical assistance and training will occur at professional levels within the GOP. The Project is socially sound.

If this Project successfully contributes to or supports the wide ranging economic reforms being discussed, the impact will be positive and will reach all Panamanians. Adopting reforms supported by the Project would put Panama in the path for a significant take-off in economic growth based on trade and financial services.

D. Administrative Analysis

Profiles of the institutions most responsible for the Project's activities appear in ANNEX G. Since the technical constraints of policy making are described and analyzed elsewhere in this Project Paper, this section is limited to the human resource constraint. Based on interviews with senior management of the GOP, and an analysis of the reform process to date, the human resource problem is manifested by an under utilization of the permanent civil service to support economic policy-making. The underutilization results from:

a distrust of the permanent staff because it served Noriega and his predecessors; and

economists in the ministries have had little exposure to neo-classical economics and economic statistics/econometrics.

The cultivation of open lines of communication and of confidence to delegate the work involved in implementing reforms within and across Ministries and agencies of the government has been a difficult task. The political events of the past twenty years in Panama have created the administrative environment of mistrust and represent a common denominator for the institutions responsible for the management of Panama's economy. The reason given for not delegating more work is that the permanent staff does not have the technical skills.

The Project addresses this by emphasizing greater technical involvement of permanent staff in formulating and implementing policy. If the technical capacity does not exist for a task, the Project will provide short-term technical assistance to fill the gaps. The Project will not, however, provide technical assistance for a task that does not incorporate Ministerial staff into it.

The quality of economists in the government also needs to be increased. Most government economists have bachelor's degrees ("licenciaturas") in economics from the University of Panama. MIPPE has about 40 economists of which approximately 10 have Master's level training. The Ministry of Commerce and Industry (MICI), the Contraloria, and the Ministry of Finance have about 10 economists each, none with graduate level training. The whole GOP civil service has 235 positions titled as economic slots. MIPPE has approximately 900 employees, MICI 620, and the Ministry of Finance 2,400. As the primary organizations for economic policy, these entities will provide the Project's training component with an abundant supply of candidates for in-country training.

Most of the international training over the last two decades of GOP and University of Panama economists has taken place in communist bloc countries. While there is no intent to disparage their education, it is doubtful that their framework for analyzing reforms is appropriate in the 1990s with economic liberalization taking place not only in Panama, but all over the world. The need for greater understanding of neoclassical economics is one of the reasons for undertaking the Project.

E. Environmental Considerations

To achieve the purpose, the project will fund technical assistance, local training, conferences, publications, and a limited number of personal computers. Since project activities are limited to training or the preparation of reports and analyses, they will not directly affect the environment. This Project's activities qualify for a categorical exclusion according to Section 216.2(c)(2)(i) of 22 CFR.

VI. NEGOTIATING STATUS, CONDITIONS AND COVENANTS

USAID/Panama and the GOP have maintained policy dialogue since the re-opening of the Mission in February 1990. This Project was designed with the advice and recommendations of a wide variety of Panamanians (see Annex J) and is an outgrowth of the technical assistance funded from the Immediate Recovery Program. With this setting, USAID/Panama expects no problems in negotiating a Grant agreement.

The Grant Agreement will include the usual initial conditions precedent relating to assurances that the Project Agreement is authorized, legally binding and signed by appropriate officers of the GOP, and naming an authorized representative for the Project.

The Economic Policy component will include a condition for the use of technical assistance. Prior to contracting for short-term technical assistance, the authorized representative will

submit a request to A.I.D. in writing that describes, as appropriate: the interagency team (working group) assigned to formulate, analyze, or implement the economic policy reform requiring technical assistance; the expected date for adoption of the reform or implementation of the reform to begin; and the constraint to the assignment requiring the services of a technical advisor. This procedural condition will be described in the Amplified Description of the Project in the Grant Agreement.

With the exception of the Macroeconomist/Project Manager, continuation of any long-term advisor beyond 12 months will be conditioned on the realization of the previously identified economic reform that necessitated the contracting of long term technical assistance. This condition will also be included as part of the Amplified Description of the Project in the Grant Agreement.

Prior to disbursements in excess of \$50,000 for technical assistance or support for the Canal component, the GOP will name an executive level committee with broad representation to be the steering committee for the Canal activities planned under the Project.

PROCUREMENT PLAN:

A. Responsible Agency:

The Agency responsible for overseeing implementation of this Project including activities related to the procurement of commodities is the Minister of the Ministry of Planning and Economic Policy (MIPPE). The Minister will provide specifications required to initiate procurements, sign PIO/Cs, PIO/Ts, PILs or other obligating/earmarking documentation to authorize the expenditure of project funds, acknowledge receipt of project commodities, and report to USAID on the services provided by AID-financed Technical Assistance. It is expected that the Minister will delegate these responsibilities/authorities to the Vice Minister as well as to the Secretary General of MIPPE.

B. Authorized Source/Origin:

The Authorized source/origin of commodities and commodity related services and nationality of suppliers of services for the project is AID Geographic Code 000. In adherence to the policy direction of the Administrator of AID, every effort has been made during the planning of this project to maximize procurement of commodities from the United States. All data processing equipment will be purchased in the United States by SER/OP from GSA schedule. However, certain office furnishings and office equipment will be purchased locally and will have their origins outside the U.S. In addition, certain instructional materials which are not available in Spanish in the United States will be required for the training component of the project. Therefore, a waiver to AID Code 941 and Panama to authorize procurement of certain office furnishings, office equipment and training materials from Panama and other Latin American countries is included as Section E of the Annex. Moreover, for a variety of reasons detailed in the waiver contained in Section F of the Annex, an expansion of the authorized nationality of suppliers for part of the services to be financed under the Project is required.

C. Procurement Agency:

Project commodities/services will be purchased by a variety of entities. USAID/Panama will purchase on the local market office furnishings and those few other items which are not cost effective to have shipped from the United States. The Office of Procurement in AID/W will purchase most of the data processing and other office equipment required by the project. The GOP, or the specific entity implementing the particular component involved, will be provided with a limited budget for expendable supplies which will be purchased on the local market. Please

refer to the commodity list below for more detailed information on the purchasing agencies for the various commodities which will be financed under the project. The foreign technical advisors for the Economic Policy component of the Project will be obtained under the 8A Contract mechanism from the Small Business Administration. If Technical Assistance is necessary for studies in the area of Social Security or Health Care Financing, AID/W will be requested to obtain these services for the Project from appropriate U.S. Government agencies under PASA arrangements. USAID/Panama will do the contracting actions for the Training Component and the Canal Management and Development Component as well as for the Audit and Evaluation Contracts.

D. Equipment List

COMMODITIES	ESTIMATED COST	4/30-9/30	10/1-9/30	9/10/1-9/30	9/10/1-4/29/94	PROBABLE SOURCE	PROC AGENT
		1991 FY91	FY92	FY93	FY94		
1. ECONOMIC POLICY							
Unidad Coordinadora(UC)							
OFFICE EQUIPMENT							
Office chairs (15)	5,250	5,250				LOCAL	USAID
Desks (15)	6,000	6,000				LOCAL	USAID
Conf. room table	1,100	1,100				LOCAL	USAID
Conference chairs	3,000	3,000				LOCAL	USAID
Office supplies	750	750				LOCAL	GOP/UC
Telephone system/ line installed	5,900	5,900				LOCAL/US	USAID
Photocopier	4,500	4,500				LOCAL	SER/OP
Facsimile machine	1,200	1,200				US	SER/OP
Personal Computers w/printer (12)	75,000	75,000				US	SER/OP
File cabinets (5)	3,500	3,500				LOCAL	USAID
Software/training set-up	10,200	10,200				LOCAL/US	USAID
Other	<u>12,600</u>	<u>6,300</u>	<u>6,300</u>				
SUBTOTAL	129,000	122,700	6,300				

E. Commodity Procurement Source/origin Waiver

Action Memorandum for the Director

Waiver Control No. _____

From:  Robert B. Stader, EXO/PEP

Subject: Request for a Procurement Source/Origin Waiver from AID Geographic Code 000 to AID Geographic Code 941 and Panama.

Cooperating Country: Panama

Project: Economic Policy Development
Project 525-0313

Nature of Funding: Grant

Description of Goods: Office Furniture, Plain Paper
Copiers, and Training Materials

Approximate Value: \$150,000

Probable Source: Panama, Mexico

Probable Origin: U.S., Panama, Mexico

Discussion and Justification:

As part of the Economic Policy Development Project, AID will be financing the purchase of certain office furnishings and equipment as well as certain training materials required to implement the Project. As part of the planning phase of this Project, every effort has been made to maximize procurement from the United States. For instance, all data processing equipment, valued at approximately \$80,000, will be purchased in the U.S. In addition, in a further effort to maximize the purchase of U.S. origin goods even when local purchases are made, should this waiver request be approved, all solicitation documents issued by USAID for local purchases under this Project will include the following language, "The authorized Geographic Code for this procurement is AID Geographic Code 000 (U.S. Only). Firms from AID Geographic Code 000 (US only) and Panama are eligible. Where commodities of U.S. Origin are not available in Panama, USAID can consider commodities of any Free World origin."

There are however certain commodities for which authority to purchase in Panama is requested. These commodities and the reasons for this request are:

- a. Office furniture, valued at approximately \$45,000, because shipping of bulky furniture from the United States is not cost effective and will unreasonably deplete Project resources and because virtually all of the furniture will be of local source/origin, thereby benefitting the Grantee, both reasons for which make it in the interest of the foreign assistance project objectives to permit local procurement; and
- b. Two plain paper photocopiers, valued at approximately \$5,000 because small desk top plain paper copiers are not presently being manufactured in the United States (Even the Xerox copiers in the USAID Office are made in Mexico.); and,
- c. Training materials, valued at approximately \$100,000, because virtually none of the required training materials in Spanish are not available in the U.S.

HB 1B Chapter 5 Paragraphs 4B4a(2) and 4B4a(6) provide that the authorized source/origin of commodities and commodity related services may be expanded to the extent necessary when, "The commodity is not available from countries or areas included in the authorized geographic code" and when "Procurement in the cooperating Country (where it is not already eligible) would best promote the objectives of the foreign assistance program." Given that plain paper copiers are not presently being made in the U.S., that virtually none of the training materials required for the training component of the Project are available from the U.S.; and, that purchase of and particularly shipment from the U.S. of bulky furniture would be a waste of scarce development resources and would not promote the interests of the foreign assistance program objectives; the test of HB 1B has been met.

Authority:

Under LAC Bureau Delegation of Authority 752, Mission Directors have the authority to waive, AID source, origin and nationality requirements, when the cost of goods and services does not exceed \$5 million. This request therefore is within your authority to grant.

Recommendation:

For the reasons cited above, I recommend that you sign below, thereby expanding the authorized source/origin of commodities and commodity related services from AID Geographic Code 000 (U.S. Only) to AID Geographic Code 941 and Panama to permit the purchase of training materials, photocopiers, and office furniture from Panama and other Third World countries of local and Code 941 sources and origin.

Approved J.W. Stuber

Disapproved _____

Date 4/8/91

Drafted: ~~EXO/PEP:RStader~~ (in draft)

Clearance: OEPP:MCott MC
CONT:HDorcus (in draft)
PPD:JClary JHC
RLA:ANewton AN
DMD:KKelly KK

F. Services Source/origin/Nationality Waiver

Action Memorandum for the Director

Waiver Control No. _____

From:  Robert B. Stader, EXO/PEP

Subject: Request for a Procurement Nationality Waiver from AID Geographic Code 000 to AID Geographic Code 941 and Panama

Cooperating Country: Panama

Project: Economic Policy Development
Project 525-0313

Nature of Funding: Grant

Description of Services: Training and Technical Services

Approximate Value: \$1,066,000

Probable Nationality: Panama, other Central American
Countries

Discussion and Justification:

Under this Project USAID will be financing training for Economists at MIPPE by an educational institute selected on a competitive basis as well as technical assistance to the Government of Panama to consider alternatives for the future management of the Panama Canal.

The design of the proposed training program highlights the need for the selected educational institution to have experience and resources in Latin America. The courses and textbooks have to be in Spanish, and the professors should be current on the local political dynamics of the GOP's economic reform program. If Panamanian institutions and institutions from Geographic Code 941 countries are precluded from the competition, it is doubtful that the submitted proposals will utilize the local and regional intellectual capability which will make the training most relevant. A.I.D. has invested heavily over the last two decades to create local and regional institutions capable of providing the type of training contemplated under the Project. Limiting

competition to U.S. institutions would denigrate previous A.I.D. efforts and accomplishments.

For example, one Central American education institute, Instituto Centro Americano de Administracion de Empresas, created with A.I.D. funding in 1964, is ideally suited to give university level economics courses at MIPPE. It is staffed with highly educated Spanish speaking professionals and associates, many of whom are from Central America. It is home to the largest concentration of instructors in the region with advanced degrees economics and business. Its experience in facilitating policy dialogue between polarized groups has earned it the confidence of both governments and the private sector. Preventing an institution such as this one from competing would clearly reduce the supply of talented instructors and analysts available for the training.

There are several other such education institutions and universities throughout Latin America that A.I.D. has strengthened and developed in our foreign assistance program. Many of these institutions have faculties well known for their academic work, as well as their role in the design and implementation of economic policies throughout Latin America. The foreign assistance objectives under which USAID has supported these organizations are still valid. To limit the competition of this Project's training activity to A.I.D. Geographic Code 000 undermines those objectives.

Concern for the future viability and neutrality of the transoceanic Canal is at the center of U.S. foreign policy interests in Panama. One unfortunate legacy of the Torrijos-Noriega dictatorship is that much of the planning period that Panama counted upon to prepare for assuming the responsibility for the Canal was lost. Panama has less than ten years to organize itself politically, administratively and psychologically to be in charge of the Canal. It is important that Panama begin to identify and analyze the alternatives for management now, and put these options before the nation. Even though the nation should be involved in the determination of how the GOP structures Canal management, indications are that the public and many in the GOP are scarcely aware of Canal operations and its importance to the economy. The parameters for discussion of Canal management should be broadly defined, and include choices such as: a private sector management contract; creation of an international management board which includes not only Panama but also the major shipping countries; sale of Panama Canal shares as a public, internationally held corporation; a semi-autonomous public enterprise; or full integration into the Panamanian public sector. Given the U.S. role in the construction and administration of the Canal since the last century, there are

political sensitivities that would preclude A.I.D. from taking a direct role in recommending to the Government of Panama how the Canal should be managed after 1999. The objectives of Project funding are that the public be made aware of the importance of the Canal to Panama, all alternatives be analyzed, the transition be made as smooth as possible, and the Canal continue to operate efficiently and effectively.

To accomplish this requires locally sourced technical assistance and services. Professional Panamanians have to be utilized to the maximum extent possible in determining how Panama will manage the Canal and use the reverted area. As stated in A.I.D. Policy Paper Approaches to Policy Dialogue, "it is important that the recipient government reach its own conclusions, and not feel that it is being manipulated." To deny funding for local technical assistance in Canal studies and debate would certainly give the appearance of an intent to manipulate. Thus a waiver to encourage the technical and professional participation of Panamanians and possibly other Latin Americans in analyzing something as emotionally charged as the destiny of the Canal is in U.S. Government interest.

HB 1B Chapter 5 Paragraph 5D10a(1)(c) and Paragraph 5D10a(1)(d) provides that a waiver of nationality of suppliers of services to authorize a different geographic code or include additional suppliers can be based on "pervasive political considerations" and "procurement of locally available services in the cooperating Country (where it is not already eligible) would best promote the objectives of the foreign assistance program." Given the investment that AID has made in local and regional institutions which are in a position to provide superior training services and the political sensitivities which surround the future management of the Panama Canal, procurement of training services in a way that allows Latin American training institutes to compete, and procurement of technical assistance services from Panama, the Cooperating Country, for Canal-related studies is in the best interest of the United States foreign assistance program and the test of HB 1B has been met.

Authority:

Under LAC Bureau Delegation of Authority 752, Mission Directors have the authority to waive, AID nationality requirements, when the cost of services does not exceed \$5 million. This request therefore is within your authority to grant.

Recommendation:

For the reasons cited above, I recommend that you sign below, thereby expanding the authorized nationality of services from AID Geographic Code 000 (U.S. Only) to AID Geographic Code 941 and Panama to permit procurement of training services up to a cost of \$609,000 in a way that allows Panamanian and other Latin American training institutes to compete, and procurement of technical assistance services up to a cost of \$457,000 from Panama and other Latin American countries for the Canal Studies Component of this Project.

Approved T.W. Stuber

Disapproved _____

Date 7/8/91

Drafted: EXO PP:RStader (in draft)

Clearance: OEPP:MCott
CONT:HDorcus
PPD:JClary
RLA:ANewton
DMD:KKelly

MCOTT
(in draft)
JHe
AM
///

ANNEX B

et. seq.)? (See A.J.D. Handbook 3 for guidelines.)

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No

7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. Project should lead to policy reforms that respond to 601(a) as: (a) yes (b) yes (c) no (d) yes (e) yes and (f) no.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). Project should lead to policy reforms that reduce tariffs. Project will procure TA and commodities from US companies.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. Panama uses the US dollar as official currency

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No

11. FY 1990 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A

12. FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No

13. FAA Sec. 119(g) (4)-(6) & (10). Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? (a) No
(b) No
(c) No
(d) No

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generate N/A

ANNEX B

15. FY 1990 Appropriations Act Title II, under heading "Agency for International Development." If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A

16. FY 1990 Appropriations Act Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A

17. FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? N/A

18. State Authorization Sec. 139. (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). Once agreement is signed, timely notification will be made

19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified The project will purchase only a few commodities including computers, virtually all of which do not come in metric units.

61

in metric units when economically available and technically adequate?

20. FY 1990 Appropriations Act, Title II, under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes

21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N/A

Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

22. FY 1991 Appropriations Act, Sec. 520. If funds are to be made available to an international financial institution, will steps be taken to ensure that its United States Government representative can, upon request, obtain (a) the amounts and

N/A

ANNEX B

names of borrowers for all loans of the institution, including loans to employees, and (b) any document developed by or in possession of the institution's management?

23. FY 1991 Appropriations Act Sec. 516. Will any part of the assistance be used for publicity or propaganda purposes within the United States? No

24. FY 1991 Appropriations Act Sec. 504. If the assistance will be used for making payments on a contract for procurement to which the United States is a party, will steps be taken to ensure that such contract contains a provision authorizing the termination of such contract for the convenience of the United States? Yes, the contract will contain such a provision.

25. FY 1991 Appropriations Act Sec. 503. Will any of the assistance be used to pay pensions, annuities, retirement pay or adjusted service compensation for any person serving in the Armed Forces of the recipient country? No

26. FY 1991 Appropriations Act Sec. 501. If the assistance is to be used to finance the construction of any new flood control, reclamation, or other water or related land resource project or program, will steps be taken to ensure that such project or program meets the standards and criteria used in determining the feasibility of flood control, reclamation, and other water and related land resource programs and projects proposed for construction with the United States? N/A

27. FY 1991 Appropriations Act Title II. If the assistance is to be used for South Africa, will any of such assistance be used to promote support to organizations or groups which are financed or controlled by the Government of South Africa? N/A

28. FY 1991 Appropriations Act Sec. 510. Will any of the assistance be used to finance the export of nuclear equipment, fuel or technology? No

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29. FY 1991 Appropriations Act Sec. 524. If the assistance will be used for any consulting service through procurement contract, will steps be taken to ensure that such assistance is limited to those contracts where such expenditures are a matter of public record and available for public inspection? Yes

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1990 Appropriations Act Sec. 546 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

b. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

This is a training & technical assistance project to expand and strengthen policy making in a manner that is most appropriate for Panamana

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

The Project design requires greater participation of counterparts in policy making, including determination of future management of the Panama Canal and provides in-country training

ANNEX B

d. FAA Sec. 101 (a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

By improving economic policies, Panama's environment for private investment and trade will improve productive capacities

e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will: (1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.

The Project should help to increase public participation in policy making and thereby increasing economic growth, lower the cost of living, and increase employment, all of which will provide benefits to all Panamanians, especially the 20% currently unemployed

f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used?

Yes

g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with

N/A

the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

- h. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A
- i. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waved for a "relatively least developed" country)? Yes
- j. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? Yes
- k. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. See B1c
- l. FY 1990 Appropriations Act, under heading "Population, DA." and Sec. 535. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? No
- Are any of the funds to be used to pay for the performance of involuntary No

sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

N/A

In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

N/A

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

m. FAA Sec. 601 (e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes, although the 8(a) process will be used for one contract

n. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

One 8(a) US firm will receive a contract accounting for approximately 42% of AID project funding

o. FAA Sec 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible:

Yes

N/A

N/A

(1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; and (11) utilize the resources and abilities of all relevant U.S. government agencies?

p. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

q. FAA Sec. 118(c)(14). Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

(1) No

(2) No

r. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

(1) No

(2) No

(3) No

(4) No

s. FY 1990 Appropriations Act
Sec. 534 (a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

t. FY 1990 Appropriations Act
Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources?

N/A

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geothermal, and advanced biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

N/A

u. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA" (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it: (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational

system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

w. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

2. Development Assistance Project Criteria (Loans Only)

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

N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement has been waived by the President because of a national security interest?

N/A

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A

3. Economic Support Fund Project Criteria

a. FAA sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes
Yes

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? Yes

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

5C(3) - STANDARD ITEM CHECKLIST

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

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

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? YES
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? YES
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? YES
4. FAA Sec. 604(e). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

5. FAA Sec. 604(a). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? N/A
7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? YES
8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? YES
9. FY 1990 Appropriations Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? YES

ANNEX B

10. FY 1990 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?
- YES
11. Trade Act Sec. 3164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically appropriate?
- The Project will purchase only a few commodities including computers, virtually all of which do not come in metric units.
12. FAA Secs. 612(b), 636(h); FY 1990 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.
- Panama uses the US dollar as official currency.
13. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- NO
14. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
- YES, although the 8(a) process will be used for at least one contract.

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? YES

4. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f): FY 1990 Appropriations Act under heading "Population, DA." and Secs. 525, 535. YES
 (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion?
- b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? YES
- c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? YES
- d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? YES
- e. FAA Sec. 662. For CIA activities? YES
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? YES
- g. FY 1990 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? YES
- h. FY 1990 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues? YES

- i. FY 1990 Appropriations Act Sec. 506.
To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? YES
- j. FY 1990 Appropriations Act Sec. 510.
To finance the export of nuclear equipment, fuel, or technology? YES
- k. FY 1990 Appropriations Act Sec. 511.
For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? YES
- l. FY 1990 Appropriations Act Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? YES
5. FY 1990 Appropriations Act Sec. 574.
Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? YES
6. FY 1990 Appropriations Act Sec. 582.
Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? YES



República de Panamá

Ministerio de Planificación y Política Económica

10 de abril de 1991
DS/SG/N-086-91

Señor
Thomas W. Stukel
Director
Agencia de los Estados Unidos
para el Desarrollo Internacional
(USAID/Panamá)
Panamá, Rep. de Panamá

Estimado Señor Stukel:

Por este medio deseamos presentar oficialmente a la Agencia de los Estados Unidos para el Desarrollo Internacional (USAID/Panamá), una solicitud de financiamiento por un monto aproximado de \$5.0 millones no reembolsables, para la ejecución del proyecto "Desarrollo de Políticas Económicas" cuyo costo total se estima en \$6.7 millones. Este proyecto será ejecutado por el Ministerio de Planificación y Política Económica (MIRPE), en un periodo de 3 1/2 años.

El objetivo principal del Proyecto es de ampliar y fortalecer el proceso de crear políticas económicas, y contempla tres (3) componentes a saber:

1. Políticas Económicas
2. Capacitación Económica
3. Estudios sobre el Manejo del Canal de Panamá y Plan de Desarrollo

El Gobierno de Panamá, le agradece al Señor Director de la USAID/Panamá, la atención que sabrá dispensar a esta solicitud de financiamiento dada la prioridad que en el marco del sector correspondiente tiene este proyecto.

Atentamente,


GOTELERMO A. FORD B.
Ministro

Agency for International Development
Washington, D.C. 20523

ANNEX D
Page 1 of 2
LAC-IEE-91-33

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Panama

Project Title : Economic Policy Development
Project

Project Number : 525-0313

Funding : \$3,100,000 (ESF)
\$1,900,000 (FDA)

Life of Project : 3 1/2 years

IEE Prepared by : Mary Ott *MCO*
Office of Economic Policy and
Programs

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments : None

Copy to : Thomas W. Stukel, Director,
USAID/Panama, Director

Copy to : W. Wilson, REMS/ROCAP, USAID/

Copy to : Mark Silverman, LAC/DR/CEN

Copy to : IEE File

James S. Hester Date April 11, 1991
James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

73

INITIAL ENVIRONMENTAL EXAMINATION

Project Location : Panama
Project Title : Economic Policy Development Project
Project Number : 525-0313
Funding : \$3,100,000 (ESF)
 : \$1,900,000 (FDA)
Life of Project : 3 1/2 years
IEE Prepared by : Mary Ott *MCO*
 : Office of Economic Policy and Programs

Recommended Threshold Decision:

a. Recommendation:

The purpose of this project is to expand and strengthen the process of economic policy making in Panama. To achieve the purpose, the project will fund technical assistance, local training, conferences, publications, and a limited number of personal computers.

Since project activities are limited to training or the preparation of reports and analyses, they will not directly affect the environment. They consequently qualify for a categorical exclusion according to Section 216.2(c)(2)(i) of 22 CFR as "education, technical assistance or training programs except to the extent such programs included activities directly affecting the environment (such as construction of facilities, etc.)."

It is recommended that no further environmental study be undertaken for this project and that a "Categorical Exclusion" be approved.

Concurrence:

T.W. Gabel

PROJECT AUTHORIZATION

Country : Panama
Project Title : Economic Policy Development Project
Project Number : 525-0313

1. Pursuant to Part II, Chapter 4, Section 534 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Economic Policy Development Project for Panama (the "Cooperating Country") involving planned obligations of not to exceed Five Million United States Dollars (\$5,000,000) in grant funds ("Grant") over a three-and-a-half year period from the date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process and administrative approval, to help in financing the foreign exchange costs of the Project. The planned life of project is three and a half years from the date of initial obligation.

2. The Project will assist the Government of Panama to expand and strengthen the process of economic policy making. The Project will finance technical assistance, training, and assorted office equipment and personal computers. The Project will also provide funding to the GOP to initiate an examination of alternative management structures for the Panama Canal.

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

A. Source and Origin of Commodities, Nationality of Suppliers of Services.

Commodities financed by A.I.D. under the Grant shall have their source and origin in the United States (A.I.D. Geographic Code 000) except as A.I.D. may otherwise agree in writing. The suppliers of commodities or services shall have the U.S. as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

B. Conditions Precedent to Disbursement

Prior to first disbursement under the Project, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may agree in writing, furnish to A.I.D. in form and

15

substance satisfactory to A.I.D. the following:

- (i) A legal opinion from the Office of the Attorney General for Administration of the Republic of Panama, or other counsel acceptable to A.I.D., stating that this Agreement has been duly authorized, or ratified by, and executed on behalf of the Cooperating Country, and that it constitutes a valid and legally binding obligation of the Cooperating Country in accordance with all of its terms and conditions;
- (ii) A statement of the name of the person holding or acting in the office of the Cooperating Country and of any additional representatives, together with any specimen signature of each person specified in such statement;
- (iii) A statement of the name of the persons designated as the Project coordinators for the Ministry of Planning and Economic Policy.

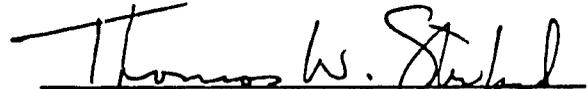
C. Covenant

The Government of Panama has named a Canal Area Advisory Committee with public and private sector representation. USAID/Panama and the Government of Panama agree that this committee shall serve as the steering committee for canal-related activities funded under the Project.

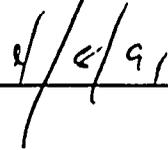
D. The following waivers to A.I.D. regulations are included in the Project Paper for your approval:

- (i) A source/origin commodity procurement waiver from A.I.D. Geographic Code 000 to Code 941 and Panama in the amount of \$150,000 to permit the Project to procure office equipment and furnishings, and training materials, in Panama and other Latin American countries, and

- (ii) A nationality waiver in the amount of \$1,066,000 from AID Geographic Code 000 to AID Geographic Code 941 and Panama to permit procurement of professional and outside services required for the Economic Training and Canal Management and Development Plan components of the Project from Panama and other Latin American countries.


Thomas W. Stukel
Mission Director

Date: _____



Drafted: PDO/PSC: DStraley WCO for

Clearance: OEPP: Mott WCO
CONT: HDorcus (in draft)
PPD: JClary gdc
RLA: ANewton an
D/DIR: KKelly kk

ANNEX F
Project Design Summary
Logical Framework
Economic Policy Development Project
525-0313

Life of Project: US\$5.0 million
PACD: 00/00/00
Date Prepared: March 15, 1991

<u>Summary</u>	Objectively Verifiable Indicators	Means of Verification	Assumptions
<p><u>Goal</u> Sustained economic growth with benefits for and participation by all Panamanians</p>	<p>Real GDP increases of at least 6% per annum throughout the 1990's</p> <p>CPI declines due to greater competition and improved efficiency</p>	<p>IBRD Country Reports</p>	<p>Political Stability</p> <p>World economic conditions remain stable or improve</p>
<p><u>Purpose</u> To assist Panama in expanding and strengthening the process of economic policy making</p>	<p><u>End of Project Status</u> MIPPE initiated process incorporates implementing Ministries in policy analysis, formulation, and debate</p> <p>MIPPE initiated process directly leads to significant economic policy changes (non-conditional) in 3 sectors</p> <p>Economic information necessary for policy reform supplied in a timely manner</p> <p>A national decision has been taken regarding the management mode for the Canal, and plans for implementation of this mode are underway.</p>	<p>PIR Consultant Reports Project Evaluation</p>	

18

ANNEX F
Project Design Summary
Logical Framework
Economic Policy Development Project
525-0313

Life of Project: US\$5.0 million
PACD: 00/00/00
Date Prepared: March 15, 1991

<u>Summary</u>	Objectively Verifiable Indicators	Means of Verification	Assumptions
<u>Outputs</u>			
<p style="text-align: center;"><u>Economic Policy</u></p> <p>Analyses/support of economic reforms</p>	<p>1 Social Security reform 1 Healthcare financing 1 Multiyear budget 1 Public procurement 1 Customs reform 1 Trade reform 8 Privtzn support 1 Labor reform</p>	<p>PIR Consultant Reports Project Evaluations</p>	<p>GOP agrees to World Bank reforms proposed during PP design</p> <p>Inputs arrive in a timely fashion</p>
CSS Financial System:	<p>Unqualified opinions on CSS financial reports</p>		
Computer Produced Statistical & Census Reports	<p>1 Household Survey completed</p>		
<u>Economic Training for GOP</u>			
<u>Economists</u>			
Trained in Macroeconomics	100		
Trained in Price Theory	100		
Trained in Econometrics	100		
Trained in Select Special Econ Topics	100		
Publications	5,000		
<u>Canal Management and Dev Plan</u>			
Canal Alternatives Management Study	1		
Canal Reverted Areas Plan	1		

19

ANNEX F
Project Design Summary
Logical Framework
Economic Policy Development Project
525-0313

Life of Project: US\$5.0 million
 PACD: 00/00/00
 Date Prepared: March 15, 1991

<u>Inputs</u>	Objectively Variable Indicators			Means of Verification	Assumptions
	AID	GOP	TOTAL		
Technical Assistance	\$3,057	\$329	\$3,386	AID disbursement reports Project Audit	
Training	609	333	942		
Commodities	350		350		
Support Costs		1,038	1,038		
Audit/Evaluation	150		150		
Inflation & Contingencies	834		834		
	\$5,000	\$1,700	\$6,700		

50

INSTITUTIONAL PROFILES

ANNEX H identifies institutional constraints to economic reform. Rather than repeat the information already presented, this analysis will describe the functions of the organizations linked to economic reform and examine the human resource capacity of those organizations. Based on interviews with senior management of the Government of Panama, and an analysis of the reform process to date, the human resource problem is an underutilization of the permanent civil service to set economic policy. The underutilization results from:

a distrust of the permanent staff because it served the Noriega dictatorship and/or has been peppered with recipients of communist bloc country scholarships.

economists in the ministries have had little exposure to modern economics and economic statistics/econometrics. The quantity and quality of economists in the government needs to be increased.

Education programs for Panamanians were politicized starting two decades ago. The legacy of this represents a common denominator for the institutions responsible for the management of Panama's economy, and serves as a reminder of the impact that the type of training can have on an institutions administrative and managerial capacities.

The training programs offered by the new GOP cover the sectors important for the economy, but are void of training in economics or economic policy. Only one training session, budget administration, out of 188 GOP training courses is related to the problems identified for economic policy making.

Of 65 foreign sponsored international training programs planned for GOP personnel in 1991, only one nine-month course is in economic planning and one two-week course is in banking. Foreign sponsors have placed emphasis on agriculture with 26 courses, commerce and tourism with 10, and health with seven. Korea, Japan, EICA, the Organization of American States, and Israel, in order by number of international courses sponsored, account for all but four of the 65 international courses offered.

Ministry for Planning and Economic Policy

The Ministry of Planning and Economic Policy has five functional departments: Economic and Social Planning, Regional Planning and Coordination, Budget Administration, Public Credit, and Institutional Development and Planning.

The Economic and Social Planning Department prepares the national and sectoral development plans, carries out economic studies and analyses, and prepares the public sector investment

budget. Planning exercises by this Department over the last two years include the Short-term Strategy for the Economic Recovery of Panama 1989-1991, the National Strategy to Overcome Poverty 1990-2000, and the National Population and Development Program 1989-1993. In the area of studies and research projects, this Department has had written or worked with shadow price determination for a donor project proposal, the 1989 draft Economic and Social Report on Panama, an analysis of aspects of the 1986 Labor Law 1, partial development of an econometric model, cost of living index, and a guide for the proposing and evaluating multi-sectoral integrated development projects.

A number of professionals from the Economic and Social Planning Department have received scholarships over the last several years for domestic and foreign training. None of the instruction, however, has been in economics. The training has been in planning, public policy making, investment programming, and project design and evaluation.

The Regional Planning and Coordinating Department formulates regional development policy and develops regional and provincial plans. Much of the work done by this Department is related to underdeveloped regions of Panama, although it does include Canal area development planning. So far, the planning process has been limited to land use planning of reverted areas.

The Budget Administration Department formulates budget and fiscal policy for the GOP, including preparation of financial reports. This Department has been quite busy over the last several years with financial monitoring of expenditures of the fiscally strapped government.

The Department of Public Credit is responsible for economic policy and financial programming as it relates to public debt. Because of the sharp economic and fiscal crisis of the last few years, this Department has concentrated its efforts on managing public foreign debt.

Finally, the Planning and Institutional Development Department develops plans and provides advice to all GOP entities on administrative development and human resource improvement.

MIPPE has approximately 800 employees. About 40 of these have positions designated as economists. Approximately 10 of the economists are thought to have "masters" degrees. Based on interviews, some of these masters are not U.S. degrees. There is reason to believe that the academic classification of these degrees as masters is probably less than U.S. university master level training.

Caja Seguro Social

The Social Security System (CSS) provides pensions for retirees from both the public and private sectors, and medical

care and accident insurance to contributors and dependents as well as to noncontributors of the government national health system. The CSS system is important to economic policy making because it accounts for one half of the public sector deficit. The questionable nature of significant assets listed on its balance sheet raises speculation as to the potential for CSS to further weaken the economy.

The financing problems of the CSS have arisen mainly from the CSS's failure to keep charges in line with actuarial cost of providing pensions. The contributions should be 25 percent of salaries to support current disability, old age and death benefits, while the real level of contributions is only nine percent. At this rate, CSS reserves will be depleted, given an accurate estimate of reserves, by the end of the century. The level of benefits is considered overly generous and should be reduced if increasing contributions to 25 percent of wages is not acceptable.

Compounding the picture is the CSS role in the health sector. The CSS is a primary provider of health services; that is, it operates hospitals and clinics. CSS offers a full health program that includes maternal-child health, adult health, geriatrics, mental health, occupational health, and dentistry. CSS prides itself with being one of the few institutions in Latin America to have a maternal child health program and a health system that is based preventative care concepts. It operates nine hospitals with 1,613 beds and 25 health clinics.

CSS finances and operates what would be a large health maintenance organization/hospital chain in the U.S. In the US, where healthcare financing is in crisis, Social Security funds Medicare, but does not own and operate hospitals and HMOs. The role of CSS as a public sector insurer and provider should raise serious questions as to its viability. The US market has private sector firms which have been able to do this, and many more which have not. The efficiencies of the private sector in marketing and containing costs are not present in the CSS system. It shows as CSS provision of health services costs the system between \$60 and \$70 million per year.

The human resource problem described by CSS management was not the lack of economists, or need for economic policy, but the system of accounting and the capacity of those to produce accurate financial reports. An assessment of financial reports with supporting detail does not immediately suggest that the CSS needs an accounting system. The system in place provides compiled financial reports of a balance sheet, income and expenses by program, and statement of changes in financial position.

While the supporting schedules provide confidence in the accounting systems ability to produce auditable reports, a management report on the accounting system would provide the best

evaluation of potential accounting and control deficiencies.

Poor data quality did turn up in the actuarial study, though. The consultants preparing the data base for actuarial calculations discarded 4.7 percent of the insured from the model because of missing birth dates. Again, a management report would determine the weakness in controls that would allow the CSS to operate a pension program for individuals and not have their birthdates.

While better record keeping could probably help CSS management, the determination of validity of assets and liabilities would appear to be more important to the economy. The CSS is not a policy making body, but the policy makers cannot make sound judgements as to future fiscal policy with the CSS looming as a long-term potential drain on public sector revenue.

Ministry of Commerce and Industry

The Ministry of Commerce and Industry (MICI) has responsibility for two permanent Commissions related to economic policy. The first is the Price Commission of Hydrocarbons and Oil By-Products. MICI chairs the Commission consisting of representatives from Ministry of Finance, MIPPE, National Commissions on Energy, Office of Price Control, the refinery, wholesale distributors of oil by-products. The Commission sends to the Cabinet of the Executive Branch its recommended prices for all hydrocarbons and oil by-products.

The second, the Industrial Policy Commission, advises the Executive Branch on issues related to the promotion and protection of domestic industries, such as the determination and changes in tariff protection on a case by case basis. The high level Commission contemplates the participation of the Ministers or Viceministers of Commerce and Industry, Finance, Agriculture, Planning and Economic Policy, and representatives from the private sector which include the Panamanian Union of Industrialists, the Panamanian Chamber of Commerce, Industry and Agriculture, and the Panamanian Association of Exporting Firms. In practice, the meetings are presided by the Minister or Viceminister of Commerce and Industry, with the representation of other Ministries delegated down.

Ministry of Finance

The Ministry of Finance collects and controls the revenue from public services, fees, interest, donations, and of course, taxes. The Ministry has six functional Departments: Customs, Public Procurement, Maritime Affairs, Cadastre, Revenue, and State Assets.

An Economic and Financial Advisor's Office does report to the

. 24

Minister. This office has nine economists. One is currently studying for a PhD. Two have US masters degrees. The professionals in this office have probably been the most utilized economists in the GOP in the past. They have been involved either directly or through inter-ministerial committees in tax policy analysis, customs reform, and public procurement regulations.

Some of the Ministry of Hacienda economists have received short-term training at the IMF. The Ministry of Finance has over 2,400 employees. Approximately 12 of these are economists. The size of the Ministry is large because it has tax administrators and customs agents all over the country. Upper management claims to need more tax auditors and equipment for them.

Controller General's Office of Panama

The Controller General's Office is the independent state organization that: keeps national accounts, including internal and external debt; controls, regulates, and oversees all management of funds and other public resources; examines, intervenes, and closes accounts of public officials; inspects and investigates the correctness of operations that influence public patrimony; establishes and promotes the adoption of measures to pay off public debt; establishes accounting methods for public entities; advises the Legislative Assembly and executive branch of the financial state of the nation; and directs and formulates national statistics.

The functions of the Controller General do not include economic policy making. The national statistics it collects and disseminates, however, are necessary for sound economic policy. The statistics gathered by the Controller General's Office are complete, they are just not always timely. The Census and Statistics Division has over 400 employees who process most of the statistics by hand.

REPORT ON THE DESIGN OF AN

ECONOMIC REFORM PROJECT

USAID/PANAMA

by Jorge Martinez

February, 27 1991

The objective of this report is to assist USAID/Panama in the design of a follow-on project to replace the short-term technical support now provided to MIPPE. The main goal of the follow-on project is to facilitate the approval and implementation of an economic policy reform package that the Government of Panama is in the process of negotiating with the World Bank, the IMF and IDB at the present time.

This report is the product of a ten day visit in February 1991. The report addresses four main areas of concern: the scope of the new project, its format vis-a-vis the format of the original project, the most important obstacles to economic policy reform in Panama, and how the project can best assist the Government of Panama in preparing for the turnover of the Canal in 1999.

I. How Broadly Should the Project Be Focused?

This section of the report addresses the areas that should receive priority attention under the new USAID project. The menu of choices for technical assistance is large because the Government of Panama is presently involved in a wide-sweeping economic reform effort.

The main economic problems of the Panamanian economy could be summarized in two broad categories:

- (i) a fiscal imbalance in the consolidated public sector, with the central government and the social security system being the two most important sources of the ongoing deficit, and
- (ii) a considerable misallocation of resources induced by government laws and regulations, the most notable being the labor code, which depress the level of GDP and inhibit future economic growth.

Economic reform in principle should be easier in Panama than in most other countries. Because of the use of the US dollar as the medium of exchange, Panama does not have to worry about monetary and foreign exchange policies. Thus, unlike many Latin American countries, Panama has not suffered from inflation fueled by the monetization of government deficits, or from undervalued or overvalued exchange rates. Using the analogy of the US, the economic problems and decisions the Government of Panama faces are more like those faced by the state government of for example Georgia or Hawaii than those faced by the federal government. But unlike the case of almost all state governments the Panamanian Constitution does not mandate a balanced budget for the central government.

To correct the fiscal imbalance and allocate economic resources better, the Government is involved in a policy dialogue with the World Bank, the IMF, and the IDB in the following areas:

Public Enterprises. The objective here is to increase the operational efficiency of the four major enterprises (the public utilities) with the goal of reducing tariffs and increase the quality of services. The Government may also privatize a number of other public enterprises for which there is no good reason for government ownership.

Taxation. The objective here is to reduce the excess burden of the tax system by eliminating biases against the use of labor input and reducing the impact of other distortions. In principle, the reform would be revenue neutral so not to increase the share of public sector in GDP. The reform should broaden tax bases--specifically, include some services in the base of the ITBM tax-- and reduce tax rates. There will also be a need to improve tax and customs administration.

Trade. The objective here is to reduce the effective rate of protection granted to domestic industry and agriculture by first converting all specific tariffs to ad-valorem tariffs, and eventually (by 1994) lower all ad-valorem tariffs to around 20 percent.

Budget and Public Expenditures. The objective is to bring capital investment and maintenance in infrastructure and public enterprises back to normal levels. To free up the needed resources for this task, it will be necessary to freeze wages and salaries in the public sector in 1991-92.

Social Security. The main objective here is to put the pension system back on sound actuarial grounds without increasing contributions to the system by employers or employees. This goal will require a reduction in retirement benefits via an increase in retirement age and a reduction in the salary basis used to compute pensions. The health care component of the social security system is also underfunded, and the central government has consistently raided the system to finance national health services not directly covered by social security.

Financial Sector. The main objective here is to deal with the fact that the BNP, The Caja de Ahorros and a few other financial intermediaries are financially bankrupt. Recapitalization and/or privatization are some of the alternatives. The Government will also have to strengthen bank supervision and regulations.

Labor. The labor code needs to be revised to increase the flexibility of labor markets. The main issue is firms' ability to

hire and fire more freely. The IFIs are only asking for an action plan in this area.

Adopting most of these reforms would put Panama in the path for a significant take-off in economic growth. Given the comparative advantage provided by its geographic position and the Canal, the long term strategy for the country should focus on the growth of export services including transport, tourism, trade and financial services. This long term strategy would be best served by a budget policy that supports investment in infrastructure and an educational system that makes the Panamanian labor force one of the best educated labor forces in Latin America. With a liberalized trade regime, Panama should aspire to be among the first countries to join the free trade agreement, probably not far away in the future, between USA, Canada and Mexico.

What strategy should USAID follow in facilitating the implementation of the reform package? In order to map a strategy it may be useful to distinguish between two types of policy measures. First, those that for the lack of a better name we will call "push-button" policies. These are policies for which once legislation is approved, the private sector will take care of their implementation. The tariff and the labor code are examples of this type of policy. The second group of policies will require further implementation effort. Examples are budget policy, tax reform and administration, or social security.

To facilitate the implementation of the first type of policies (push-button policies) USAID should continue to provide technical assistance in a format similar (with the modifications mentioned in Section II of this report) to that used in the technical assistance given to MIPPE in the first phase of the project. MIPPE is planning to introduce a technical unit which would coordinate the implementation of the reform package. USAID will have to coordinate with the IFIs, specially IDB, in the delivery of technical assistance to this unit. Sections II and III of this report address the possible format of this technical assistance.

For many of the reforms to be successful, the Government of Panama will need technical assistance in the implementation of the reform and the strengthening of the implementing agencies. The needs for this second type of policies are summarized in the following paragraphs.

Public Enterprises:

(i) MIPPE will need TA to draw the contratos/planes and create a unit to regulate and overview on a permanent basis the natural monopolies, whether these public enterprises remain in the public sector or they are privatized. Regulatory design will

require careful work because of the ease with which regulated firms tend to control regulatory bodies. The IDB is interested in providing TA in this area.

(ii) With respect to privatization it is better to appraise the Government's commitment to privatize; at the present time this commitment is not obvious. So far only an advisory commission has been named. If the Government puts real resources into this task, and lists some of the enterprises to be privatized USAID could provide short-term TA in specialized matters.

Taxation:

(i) In the area of tax policy the IFIs have pushed the Government to go fast in coming up with a revenue neutral-efficiency enhancing tax reform. The analysis of the efficiency of different reform packages and the necessary simulations to determine the revenue and distribution of tax burden impacts have not been done or are too weak. The IFIs could have instead asked the Government of Panama to agree to have a new tax structure in place in a period of one year meeting very specific structural criteria. The major risk is that this reform done in a hurry may reduce tax revenues and therefore aggravate the present fiscal imbalance.

(ii) In the area of tax administration both USAID and IDB are providing or will begin soon to provide TA. USAID tax administration project was not designed to support the ongoing tax reform, but it could be easily adapted to do so. The project is relatively modest in scope but it will cover all critical areas with the exception of taxpayer registration and control. This particular area is covered under IDB's Registro Unico de Contribuyentes/ Cuenta Corriente (RUC/CC) project. The objective of this project is to create taxpayers' master file with a current account for each taxpayer with information about all taxes he or she owes. Many countries in Latin America have had similar RUC/CC projects funded by the IDB in the last decade. In many instances, e.g. Guatemala, Ecuador, Dominican Republic, these project have not produced operational systems. These failures are significant because other areas of tax administration such as audit and collections will not be effective if taxpayer registration and control systems do not work. This is a significant risk for the USAID funded tax administration project. The Direccion General de Impuestos in the Ministry of Finance will likely need further assistance in hardware and software equipment.

(iii) In the area of customs, there will a need for technical assistance in setting up computerized classification

and valuation systems. The Government perceives this to be an urgent need because of the impending changes in the tariff from specific to ad-valorem taxes. It is suspected that under-invoicing will then become a serious problem. Several Government officials have talked about the possibility and wisdom of hiring an international firm such as SGS to perform this task. Putting in place a modern customs service with computerized classification and valuation systems plus training and hardware should cost around \$2 million. IDB has shown interest in providing technical assistance in this area. The Government is negotiating with the UNDP the installation of SIDUNEA, a statistical information system for customs that can be also used for classification purposes.

Budget Policy and Administration:

Both the Budget Office and the Capital Investment Planning Office are located in MIPPE. Technical capabilities in both units are limited. For example the Budget Office operates without a cash budget program and it does not have a multi-year budget instrument. Budget drafting is not automated and the skill levels of most employees need to be upgraded. The same shortcomings exist in the capital budget unit. This latter office also needs TA in project evaluation and analysis. The same is true for the line ministries and decentralized agencies. IDB is interested in providing technical assistance in these areas, so there is a need to coordinate with them.

Social Security:

USAID has already funded the actuarial study for the retirement system. A similar study needs to be done for the health programs of the Caja de Seguro Social (CSS). A more pressing need appears to be the revamping of the Caja's accounting system which seems to involve a confusing mixture of the cash and accrual methods. At the present time the Director of the Caja does not know whether the system has a deficit of \$65 million or a surplus of \$90 million. This is an area where TA is likely to have a high pay-off. But politically it may not be wise to get involved with the Caja given the unpopularity of all the needed reforms.

There are two other areas that are not of immediate direct support to the implementation of the economic reform package, but which will facilitate policy dialogue and decision making in the future. These are the training of government economists and improvements in the gathering of economic statistics. The training of economists could be carried out with seminars or

short courses for selected people in MIPPE, Ministry of Finance, MICI, Contraloria, and other agencies. The improvement of national economic statistics will require training and some computer equipment (3 to 5 386 microcomputer systems) for the statistical office of Contraloria.

II. Should the Follow-on Project Adopt the Model of the Original Technical Assistance or Should the Model Be Modified?

USAID provided technical assistance to MIPPE over the last year under its Immediate Recovery Program. This assistance provided MIPPE with two full-time economic advisors (Moreno and Sanguinety). The assistance also provided for contract technical studies necessary to develop and accelerate implementation of the Government's reform program and to facilitate negotiations with the IFIs. These activities were designed as a short term effort with the exclusive objective of helping the Government of Panama to gain access to international institutional credit as quickly as possible. Although these objectives have not been yet achieved, the Government of Panama is close to signing an agreement with the IFIs. In the short horizon the Government will have to turn its attention to the implementation of the economic policy package agreed to with the IFIs. For this reason the Government has requested USAID the continuation of support in the area of policy reform through technical and commodity assistance.

There exist several options. USAID assistance could continue in the same mode, financing long term technical advisors to MIPPE who manage a fund used to provide short term technical assistance as requested by MIPPE and approved by USAID. Alternatively, at least part of the assistance could be allocated to other government agencies in charge of policy implementation in critical areas and with well identified needs for technical assistance.

Assistance to MIPPE over past nine month appears to have been quite effective in accomplishing its desired objectives. A process for policy formulation was set in motion and two important documents containing the Government's policy agenda were completed. DETEC, the technical assistance contractor in the first phase of the project, seems to have played an essential role in both activities. The short term technical assistance provided in specific areas to MIPPE's request also seems to have produced, in most cases, quality outputs.

This experience would seem to point out in the direction of keeping the same mode for the second part of the project.

The Director General of MIPPE, Luisa de Soto has expressed the need to establish a "technical unit" within MIPPE for the implementation and follow-up of the policy reform. She has also pointed out that the funding and operation of this technical implementation unit should be the same as in the first part of the project. An important difference will be the number of long term technical advisors. For the technical unit to do its job properly, MIPPE and the World Bank have frequently mentioned the need for eight long term advisors. The IDB seems to be interested in funding several of these advisors or even the entire technical unit. (This needs to be confirmed with IDB). USAID in principle has offered to fund part of the staffing of the technical implementation unit. Returning to the question of what is the desirable mode for the continuation of technical assistance, the request from MIPPE also seems to point in the direction of keeping the model of the original technical assistance.

Before concluding that no change should be implemented in the format of technical assistance to MIPPE, let us ask what is that the first part of the technical assistance did not accomplish. Although in all fairness we need to say that it was tried, the original technical assistance provided very little institution building for policy formulation in and outside MIPPE. Actually, the narrowness of the original policy design team may have been a contributing factor to the resistance with which many of other government units received the policy initiatives emanating from MIPPE. Policy was designed within MIPPE by very few people, with the assistance of USAID long term consultants. Only after a full draft of the policy package had been finished, did the process of engaging or actually convincing implementing agencies start.

One lesson to be drawn from the experience of the last nine or ten months is the importance of getting implementing agencies involved as early as possible in the policy design process. To increase the likelihood that any particular policy emanating from the new technical unit at MIPPE gets implemented, USAID could introduce a condition that the following process is followed in each case. For each short term technical assistance identified by the technical unit that will involve policy action down the road, MIPPE's unit will put together a working team with participation of the implementing agency or agencies. This team should participate in the entire process, from the writing of the terms of reference to the final discussion and presentation of findings.

For project activities outside the technical unit in MIPPE, a focus on policy implementation itself suggests reaching direct agreements and concentrating resources with other government

units outside MIPPE. The format to follow here is that of the Tax Administration Project USAID has developed in the Ministry of Finance.

III. Obstacles to the Implementation of Policy Reform

From an early start it was clear to the new democratic government of Panama that it needed to take a number of difficult policy measures to regain stability and put the economy back into a growth path. Some difficult measures were indeed taken in the first fourteen months of the administration, e.g. freezing job positions and wages in the entire public sector. In many instances however, it has become apparent that even when political will exists to undertake policy change, the process has become extraordinarily difficult and fraught with delay. To help move economic policy reform forward, it is necessary to develop an understanding of the causes of these problems.

This section first examines several explanations for the delays and difficulties suffered in the approval and implementation of policy measures. These include political, policy design, managerial and administrative reasons. In the second part of the section we make recommendations for how the project could help the Government of Panama overcome some of the identified obstacles.

Many of policy measures identified in the Government's economic strategy and supported by the IFIs would eliminate sizable economic rents for well localized groups. This is the case for example of the elimination of specific tariffs and reduction of ad-valorem tariffs of around 70 agricultural and industrial commodities. Rent seeking behavior and opposition to any change in the status quo by those groups benefiting from protective government policy is to be expected in any country. Both phenomena, however, seem to be more entrenched in Panama than in most other countries. The recent political history of the country may have enhanced this kind of behavior, but many of the protective measures do seem to go back for many more years. How effective resistance may become will depend on the government's power base and whether it can afford to lose the political support of the economic groups affected by the policy measures. The opposition of particular interest groups to policies that would eliminate long standing privileges may be the single most important source of opposition to reform in any country. Witness the necessity and the same time the difficulty of controlling the federal deficit in the US. One reason for the strong opposition to change is that if economic benefits and rents from protective policies get capitalized in asset values, reform may actually bring true losses to those presently enjoying protection. For example, people that bought a manufacturing

business protected domestically with a high tariff very likely paid for the discounted value of future profits arising from the protection against foreign imports.

A second source of difficulty also of a political nature is the fact that the Government is politically divided. The first instinct for the President may be to try to maintain the present coalition together by keeping everybody happy. The easiest way to achieve this latter may be simply to maintain the status-quo.

The sheer size and scope of the policy reform package and the prospect of having to undertake substantial policy changes in many diverse areas very likely also have acted as deterrents to action. This realization would seem to call for implementation in more steps than it is now being proposed or asked from the Government of Panama. The difficulty with this approach is the risk of Government never undertaking other hard measures because of political considerations specially after opposition to the first sets of measures is manifested.

The negotiating position adopted by several missions of the World Bank, IMF and IDB in the past has been ambiguous as to what "sacrifice" would be needed from the Panamanian side to reach an agreement. Early missions seem to have led Government officials to believe that an agreement could be reached with a soft adjustment package for the private sector (e.g. the tariff and the labor code) in exchange for a harder adjustment in the public sector (e.g. Caja de la Seguridad Social and tax reform). This early hesitations are well described in DETEC's progress reports. The last World Bank, Fund and IDB missions have adopted a tougher and more consistent negotiating stand but the damage via reputation or Government expectations has already been done. From our meetings with Government officials, we have noticed that the policy package being demanded by the IFIs is taken very seriously. There is still a long and arduous negotiation process ahead and there will be considerable resistance specially to measures that will increase unemployment.

The process of policy formulation and dialogue itself has contributed little to the acceptance and implementation of policy reforms. A small group in MIPPE close to Minister Ford, composed of Director General Luisa de Soto and USAID consultants Moreno and Sanguinetti, were the main and frequently the only GOP's participants in the formulation of policy and the dialogue with the IFIs and also USAID. This an extremely narrow political base offering very little insurance for continuity in the process of policy dialogue. Engaging other government agencies early on in the process of policy formulation it would decrease the likelihood of rejection or lack of interest by the implementing agencies. Policy formulation has also been almost entirely void

of public debate. The findings of the studies conducted under USAID technical assistance were never discussed in the press. Of course, it is not always possible or even desirable to open up the process to other government agencies or to expose it to public debate. But systematic omission of these steps will necessarily lead to difficulties or failure at the time of policy implementation.

Another reason for implementation failure has been MIPPE's inability to present to the rest of the Government and the public at large the different policy options in their most favorable light. This failure or inability to "sell" good policies probably has multiple sources including personal styles or lack of political experience. Policy analyses undertaken by MIPPE with USAID technical assistance and also those undertaken by the IFIs have very seldom gone far enough to quantify benefits and identify the beneficiaries of policy reform. By identifying and informing those groups, it would be possible in many cases to provide Government with effective allies in the private sector in the push for policy reform. For example, tariff reform should reduce the cost of living in Panama and it should reduce also the production costs of particular economic sectors such as the construction sector. Quantifying the potential losses to the protected sectors would also serve as vehicle to expose the extent of their privileged position. Similarly, in the case of the revenue neutral tax reform, the impact of the extension of the ITEM or value-added tax to the service sector can be illustrated by the distribution of tax burdens by income group and economic activity with and without the taxation of services. Since the tax revenues coming from the taxation of some services would be used to reduce the level of taxation in some other activities or income groups, it may be harder for the newly taxed sectors to argue about the horizontal or vertical inequity of the new tax. The proper way to look at the merits of a new tax or any particular tax change is in the context of the entire tax system.

Very seldom has policy analysis been carried out far enough to identify the consequences of policy inaction, or have the results of these inquiries been publicized well enough within and outside government to make a difference. This seems to have been the case for the USAID sponsored study for the Caja de la Seguridad Social,

The overall impact of the reform package being proposed by the IFIs and supported by USAID will lead --via a better allocation of economic resources-- to higher GDP per capita and higher employment. The process of economic structural adjustment is thus in many cases a positive sum process but almost invariably they have been perceived or even presented as zero sum processes

in which any gain to anyone has to come from losses to somebody else. A good example of a "positive sum" reform is the case of the petroleum refinery.

The nature of structural adjustment in Panama is also generally different from that in other developing countries. The reform of public enterprises in most countries frequently involves the painful adjustment of tariffs and prices upwards to eliminate an important source of the Government' deficit. In Panama, prices of public utilities are already high and reform of public enterprises are likely to bring them down. The computation by independent sources of the possible tariff reductions that could accompany reform and the further dissemination of this information could create the popular support that the government may need to confront labor unions or any other group opposed to the reforms.

Until now, policy analysis from the IFIs and MIPPE has focused on the measures needed to regain economic efficiency across the economy. Very little attention has been paid to what sort of policy measures could facilitate the process of adjustment or what measures could soften the social impact of the adjustment process. Given the importance of setting up the structural adjustment package first, the priorities have been the right ones. Nevertheless, it is likely that the lack of complementary policies facilitating the adjustment and softening its social impact have contributed to the lack of decision within the Government to embrace the reform package as its own.

Many of the proposed policies in the adjustment package are likely to generate unemployment in the short run, even when in the longer run the expected outcome of the structural adjustment is a significant increase in the overall level of employment. Temporary increases in unemployment are likely to come from the reform of the labor code allowing for more flexibility in hiring and firing workers, from firm and plant closings caused by reductions in the level of protection granted by the tariff, by adjustments in payroll by privatized public enterprises or reformed public utilities, or by reducing current government expenditures in wages and salaries to increase capital investment and maintenance. MIPPE has argued that the most important obstacle in the way of several measures in the structural adjustment package is the increase in the unemployment rate they will represent on top of the 20 to 25 percent open unemployment rate in the economy at the present time.

An example of policy alternative that could help soften the impact of temporary unemployment will be the introduction of a nation-wide unemployment insurance program. It could be argued that the rigidities presently in the labor code for firing

91

workers provides an unemployment insurance program to those workers presently holding a job. Of course, this unemployment insurance program is very costly and inefficient. Instead of being able to spread risks across many different firms, the labor code forces each firm to self-insure. The outcome is of course that the cost associated with the risk of having redundant workers is much higher than it needs to be and consequently each firm hires less workers. Introducing a modern unemployment insurance program would not only increase economic efficiency and overall employment, but it would also defuse union and non-organized labor resistance to the reform of the labor code. It is an important principle of economic policy design to allow for an out or offer an alternative to those affected by reform. An unemployment insurance program could play that roll in Panama.

Another example of economic policy that could soften and facilitate the adjustment process is the creation of a credit facility for industrial or agricultural reconversion. Such facility could lend funds at preferential rates to those business affected by the structural adjustment package over a given period of time. As in the case of unemployment insurance, the credit facility would give the Government something to offer to those sectors being asked to sacrifice, and it could reduce overall opposition to the adjustment package in the private sector. In the case of agriculture, restructuring and acceptance of more competition within the sector also could be made more acceptable if the reform is accompanied by the introduction of an extension service program.

Another obstacle to policy implementation could be the extraordinary control that the Comptroller's Office exerts over the entire government apparatus. In the preparation of this work we rarely visit a ministry or government agency in which the Comptroller himself was not mention as being crucial to some important aspect of the operations. This power seems to arise from a combination of institutional arrangements and the personality and values of the current Comptroller. The Constitution empowers the Comptroller to both audit ex-post all government transactions, as is common in many other countries, and authorize ex-ante all government disbursements, which is very uncommon in government financial practice. This latter mandate was probably a reaction to the abuses of the previous regime. The power to authorize ex-ante and to audit ex-post of course raises the issue of who does oversee the Comptroller's decisions. From a policy view point, it has the potential to create a bottleneck in government operations and to discourage policy reform. At any rate, the present Comptroller is a force to contend with in the formulation and implementation of economic policy. His effective power to stop or slow down some of the policies emanating from MIPPE, the Ministry of Finance and other government agencies

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should be taken into account in the policy design process. Policy design over the past year does not seem to have incorporated this constraint.

The analysis in the first part of this section identified several obstacles to policy implementation which are part of the past or cannot otherwise be changed. However, the analysis also identified a number of ways to improve the likelihood of policy implementation. The following paragraphs summarize the actions that will help improve the chances of policy implementation.

0 All terms of reference for economic policy studies from now on could specify the need to quantify benefits and costs of proposed policy changes, and the need to identify the groups likely to benefit from the changes. If feasible the studies should also quantify the benefits and costs of inaction. Besides the executive summary, the study could be accompanied by a more informal statement of the rationale for the policy changes and their impact. This statement for the use of the responsible official in the Cabinet or with the press. An effort should be made to come to an agreement with MIPPE to publicize as much as possible the outcome of all policy research.

0 The policy dialogue could be broadened by engaging in the process other Government agencies besides MIPPE. This would seem to be particularly important for policy issues that require implementation by a particular office. The technical assistance so far provided to MIPPE has resulted in very little institution building inside MIPPE and much less so in other Government institutions. Long term technical advisors should not be utilized as substitutes for activities to be performed by regular staff.

0 The policy implementation process could be facilitated by the contemporaneous introduction of policies that soften the impact and increase the speed of adjustment to the reforms. Three specific set of policies should be the object of further study. The introduction of an unemployment insurance program, the temporary use of a preferential credit line for businesses affected by the structural adjustment package, and the introduction of an agricultural extension service.

IV. Assistance to Prepare for the Turnover of the Canal in 1999

At the present time there appears to be no Government office fully in charge of planning for the eventual turnover of the canal operations to the Government of Panama. The Oficina del Area Canalera of MIPPE has jurisdiction over the planning and development of the lands reverted under the Canal treaty, but its

mission does not include either studying or planning the future management and operation of the Canal itself. Possibly, these activities may be located at some future time in the Oficina de Desarrollo Institucional of MIPPE. The Oficina del Area Canalera which open in 1983 has done little other than drawing general plans and possible land use maps of the reverted zones.

The UNDP has agreed to finance the writing of the terms of reference for a study of a comprehensive plan of land use of the reverted lands. This study according to the UNDP would not include the operation of the canal itself. Although the Oficina Canalera of MIPPE mentioned the figure of \$1 million as the cost of the study, the UNDP did not have any information on cost.

Another government office involved with the implementation of the Canal Treaty is the Oficina para la Ejecucion de los Tratados of the Ministry of Foreign Relations. This office however appears to play only the ceremonial role of accepting pieces of reverted property and transferring them to the appropriate government agency; for example buildings are transferred to Ministry of Housing.

The first priority is to find some agency within government that will take as its main responsibility to prepare for the turnover of the canal operations. The present setting would seem to point at MIPPE as the place. Then there are two important type of issues to plan for. First, how to initiate and maintain a process of national dialogue about the future of the canal operations. One way to start this process is to fund several studies from widely based institutions including local universities and foundations and some prestigious (meaning generally respected in Panama) foreign institutions, and then hold a general conference to present and discuss the findings and conclusions of these studies. President Carter and administrations officials could be invited. Ideally some consensus will arise that puts the process in the right track. The conference will serve the purpose of raising the tone and rigor of the national debate which sooner or later will take place.

The second important issue is determine what general model or institutional framework will be most desirable for the future operation of the canal, and steer the discussion that way. One way to do this is to write terms of reference for the discussion studies referred to in the previous paragraph which critical phrases such autonomy, efficiency, etc.

Given the low efficiency and all sorts of problems being

experienced by public enterprises, this model should be avoided. One way to think about this issue is the drafting a law that gives the new canal administration :

(a) autonomy from the central government, perhaps in a way similar to the relationship of the Federal Reserve System with the executive branch in the US.

(b) a professional staff whose pay scale and general working conditions are not subject to the requirements of the general administration or civil service system. These differentials are not uncommon in both developing and developed countries. For example , central banks are often considered important enough to receive special treatment.

(c) a balance against government pressure through foreign ownership of a minority, but close to half, of the capital stock. Foreign investors could include the three or four most important users of the canal.

ANNEX I

ECONOMIC POLICY DEVELOPMENT PROJECT
 PROJECT BUDGET DETAIL AND NOTES
 PROJECT NO: 525-0313

	AID COST BY COMPONENT	AID	GOP	TOTAL	
ECONOMIC POLICY WORKING GROUPS	2,301,000				
L-T TECHNICAL ADVISORS (NOTE 1)		\$612,000		\$612,000	
REFORM RELATED TECHNICAL ASSISTANCE (NOTE 2)		1,530,000	\$329,000	1,859,000	
UNIDAD OPERATING COSTS (NOTE 3)			586,000	586,000	
UNIDAD EQUIPMENT COSTS (NOTE 3)		129,000		129,000	
CONTRALORIA COMPUTERS - STATISTICS/CENSUS (NOTE 7)		30,000		30,000	
ECONOMIC TRAINING COURSES	715,000				
IN-HOUSE TRAINING (NOTE 4)		609,000	333,000	942,000	
TEXTBOOKS/MATERIALS		79,000		79,000	
PUBLICATIONS		27,000		27,000	
CANAL ACQUISITION & MANAGEMENT (NOTE 5)	1,000,000				
TECHNICAL ASSISTANCE		915,000		915,000	
COMMODITIES		85,000		85,000	
SUPPORT COSTS			452,000	452,000	
EVALUATION AND AUDIT (NOTE 6)	150,000	150,000		150,000	
CONTINGENCIES & INFLATION	834,000	834,000		834,000	
TOTAL PROJECT COST	\$5,000,000	\$5,000,000	\$1,700,000	\$6,700,000	

THE UNIT OF CURRENCY IN PANAMA, THE BALBOA,
 IS THE US DOLLAR

ANNEX I

ECONOMIC POLICY DEVELOPMENT PROJECT
PROJECT BUDGET DETAIL AND NOTES
PROJECT NO: 525-0313

NOTE 1

LONG TERM COORDINATOR/MANAGER FOR

DIRECT LABOR	\$218,400
FRINGE BENEFITS	65,520
OVERHEAD	127,764
TRAVEL & TRANSPORTATION	14,772
CONFERENCE MATERIALS & PUBLICATIONS	90,000
G&A	56,810
FEE	38,734

TOTAL LONG TERM ADVISOR COSTS

	\$612,000
	0

101

ANNEX I

ECONOMIC POLICY DEVELOPMENT PROJECT
PROJECT BUDGET DETAIL AND NOTES
PROJECT NO: 525-0313

NOTE 2
SHORT TERM TA TO WORKING GROUPS
ILLUSTRATIVE WORKING GROUPS:

SECTOR	TASKS TO BE COMPLETED	WORKING GROUP AGENCIES	TYPE OF POTENTIAL USAID FUNDED SHORT TERM TA NEEDS	AMOUNT OF TA	AID COST	GOP COST
PUBLIC CORPORATIONS	ESTABLISH ACTION PLANS FOR EACH SECTOR DESIGNED TO REDUCE COST/RAISE EFFICIENCY	MIPPE CONTRALORIA	NONE - IDB AREA			\$124,000
	IMPLEMENTATION OF ACTION PLANS FOR FOR IRHE, IDAAN, APN, AND INTEL	IRHE, IDAAN, APN, OR INTEL AS APPROPRIATE				
SOCIAL SECURITY	DEVELOPMENT AND IMPLEMENTATION OF A PROGRAM WHICH INCLUDES INCREASING RETIREMENT AGE, MODIFY BENEFIT FORMULA, ELIMINATE SPECIAL PENSION REGIMES, BETTER UTILIZE INVESTMENT RESERVES	MIPPE CSS MIN SALUD	SENSITIVITY ANALYSIS	4	\$80,000	
	DEVELOPMENT AND INSTALATION OF AN ACCOUNTING SYSTEM AT CSS	MIPPE CSS CONTRALORIA	MANAGEMENT REPORT ON ACCTNG & CONTROL SYSTEM	6	120,000	
	SEPARATION OF HEALTH CARE FINANCING FROM PENSION COMPONENT	MIPPE CSS MIN SALUD	ACTUARIAL/HEALTHCARE ECONOMIST IMPLEMENTATION TECHNICAL ASSISTANCE	2 6	40,000 110,000	
TAX REFORM	DEVELOPMENT AND PASSAGE OF LEGISLATION, REVISING TAX CODE, RATIONALIZING RATES IN CORPORATE AND PERSONAL INCOME TAXES		N/A			
	IMPROVE TAX MANAGEMENT AND ADMINISTRATION		AID TAX ADMINISTRATION PROJECT			
PUBLIC SECTOR INVESTMENT	PREPARATION AND IMPLEMENTATION OF AGREED PUBLIC INVESTMENT PROGRAM	MIPPE - BUDGET OFFICE CONTRALORIA MOP	IMPLEMENTATION ASSISTANCE 2 LONG TERM ADVISORS	24	480,000	

104.

ANNEX I

ECONOMIC POLICY DEVELOPMENT PROJECT
 PROJECT BUDGET DETAIL AND NOTES
 PROJECT NO: 525-0313

NOTE 3
 OPERATING COSTS FOR UNIDAD

GOP COUNTERPART CALCULATION				PER YEAR			LIFE OF PROJ		
				LABOR	OTHER	TOTAL	LABOR	OTHER	TOTAL
STAFF COSTS									
PROFESSIONAL STAFF	\$1,300 / MOS/PROF	(8)		124,800		124,800	374,400		374,400
RECEPTIONIST (1)				5,000		5,000	15,000		15,000
ADMINISTRATIVE ASSTNTS	\$700 /MOS/PER	(3)		25,200		25,200	75,600		75,600
OVERHEAD									
RENT	\$5.00 x	303 SQ MT			18,180	18,180		54,540	54,540
INSURANCE					5,000	5,000		15,000	15,000
HOUSEKEEPING AND MAINTENANCE				5,000		5,000	15,000		15,000
TAXES & LICENSES						0			0
OFFICE SUPPLIES					6,000	6,000		18,000	18,000
LEGAL						0			0
TELEPHONE/FAX					6,000	6,000		18,000	18,000
OTHER (SPECIFY)					0	0		0	0
TOTAL COSTS				\$160,000	\$35,180	\$195,180	\$480,000	\$105,540	\$585,540

USAID PURCHASED OFFICE EQUIPMENT FOR UNIDAD:

Office equipment	
Office chairs (15)	5,250
Desks (15)	6,000
Conference room table	1,100
Conference chairs	3,000
Small office needs	750
Teleph sys/line install	5,900
Photocopier	4,500
Facimil/e machine	1,200
P.C. with printer (15)	75,000
Filing cabinets (5)	3,500
Software/training/set-up	10,200
Other	12,600

Total equipment costs	129,000

106 -

ECONOMIC POLICY DEVELOPMENT PROJECT
 PROJECT BUDGET DETAIL AND NOTES
 PROJECT NO: 525-0313

NOTE 4
 ECONOMIC TRAINING COURSES

IN-HOUSE TRAINING

MACROECONOMICS

HOURS FOR EACH GROUP	39
GROUPS OF 20 PARTICIPANTS	5

HOURS OF INSTRUCTION	195
PER HOUR COST FOR INSTRUCTOR	75

INSTRUCTOR COSTS	* 14,625
PARTICIPANTS	100
COST OF MATERIALS PER PARTICIPANT	50

PARTICIPANT MATERIALS COST	5,000
INSTRUCTOR COST	* 14,625

PRE CONTRACT COST	19,625
	=====

GOP COUNTERPART	
PARTICIPANT SALARIES	
PARTICIPANTS	100
HOURS OF INSTRUCTION	39
AVE HOURLY SALARY	8

	29,250

MICROECONOMICS

HOURS FOR EACH GROUP	39
GROUPS OF 10 PARTICIPANTS	5

HOURS OF INSTRUCTION	195
PER HOUR COST FOR INSTRUCTOR	75

INSTRUCTOR COSTS	* 14,625
PARTICIPANTS	100
COST OF MATERIALS PER PARTICIPANT	50

PARTICIPANT MATERIALS COST	5,000
INSTRUCTOR COST	* 14,625

PRECONTRACT COSTS	19,625
	=====

GOP COUNTERPART	
PARTICIPANT SALARIES	
PARTICIPANTS	100
HOURS OF INSTRUCTION	39
AVE HOURLY SALARY	8

	29,250

107

ANNEX I

ECONOMIC POLICY DEVELOPMENT PROJECT
PROJECT BUDGET DETAIL AND NOTES
PROJECT NO: 525-0313

NOTE 4 (CONTINUED)
ECONOMIC TRAINING COURSES

ECONOMIC STATISTICS	HOURS FOR EACH GROUP	39	
QUANTITATIVE ANALYSIS	GROUPS OF 10 PARTICIPANTS	5	
ECONOMETRICS			
	HOURS OF INSTRUCTION	195	
	PER HOUR COST FOR INSTRUCTOR	75	
	INSTRUCTOR COSTS	* 14,625	
	PARTICIPANTS	100	
	COST OF MATERIALS PER PARTICIPANT	50	
	PARTICIPANT MATERIALS COST	5,000	
	INSTRUCTOR COST	* 14,625	
	SUBTOTAL	19,625	

GOP COUNTERPART	
PARTICIPANT SALARIES	
PARTICIPANTS	100
HOURS OF INSTRUCTION	39
AVE HOURLY SALARY	8

	29,250

SPECIAL TOPICS	GUEST LECTURE SERIES	7	
TAX REFORM	VISITING PROFESSORS		
BUDGET POLICY	2 WK TOTAL/1 WK PREP/1 WK INSTR	10,000	
	AIRFARE & PERDIEM	3,000	
TARIFF REFORM	TOTAL COST FOR VISITING PROFESSOR	91,000	91,000
REGULATION OF PUBLIC ENTERPRISES			
ECONOMICS OF HEALTH	ASSISTANT PROFESSOR (40 HOURS)	3,000	
ECONOMICS OF CANAL	NUMBER OF SERIES	7	
NATIONAL INCOME ACCOUNTS		-----	
		21,000	21,000
	STUDENTS PER TOPIC	x 100	
	COST PER STUDENT	x 25	
	NUMBER OF SERIES LECTUR	x 7	

		17,500	17,500
	CONFERENCE MATERIALS	x 2	
	CONFERENCE ATTENDEES	x 150	
	NUMBER OF SERIES LECTU	x 7	

		2,100	2,100
	CONFERENCE FACILITIES	10,500	10,500
	TOTAL FOR SPECIAL TOPICS		-----
			142,100
	PUBLICATIONS	27,000	

GOP COUNTERPART	
PARTICIPANT SALARIES	
PARTICIPANTS	700
HOURS OF INSTRUCTION	20
AVE HOURLY SALARY	8

	105,000
GOP FACILITIES CONTRIBUTION	
ESTIMATED COST PER HOUR	50
TOTAL INSTRUCTIONAL HOURS	725
MACRO	195
MICRO	195
ECON STATISTICS	195
SPECIAL TOPICS	140

ESTIMATED VALUE	36,250

108

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 ECONOMIC POLICY DEVELOPMENT PROJECT
 PROJECT BUDGET DETAIL AND NOTES
 PROJECT NO: 525-0313

NOTE 5
 CANAL MANAGEMENT AND DEVELOPMENT

EXECUTIVE COMMITTEE - GOP COSTS				PER YEAR	OTHER	TOTAL	TWO YEAR BUDGET	OTHER	TOTAL
				LABOR			LABOR		
STAFF COSTS									
PROFESSIONAL STAFF	\$1,300 / MOS/PROF		(10)	156,000		156,000	312,000		312,000
RECEPTIONIST	\$400 /MOS/PER		(1)	4,800		4,800	9,600		9,600
ADMINISTRATIVE ASSTNTS	\$700 /MOS/PER		(3)	25,200		25,200	50,400		50,400
OVERHEAD									
RENT	\$5.00	x	303 SQ MT		18,180	18,180		36,360	36,360
INSURANCE					5,000	5,000		10,000	10,000
HOUSEKEEPING AND MAINTENANCE				5,000		5,000	10,000		10,000
TAXES & LICENSES						0			0
OFFICE SUPPLIES					6,000	6,000		12,000	12,000
LEGAL						0			0
TELEPHONE/FAX					6,000	6,000		12,000	12,000
OTHER (SPECIFY)					0	0		0	0
TOTAL GOP COSTS				191,000	35,180	226,180	382,000	70,360	452,000
A.I.D. COSTS									
TECHNICAL ASSISTANCE SUB CONTRACTS - CANAL MANAGEMENT ALTERNATIVES				295,000		295,000	590,000		590,000
TECHNICAL ASSISTANCE SUB CONTRACTS - REVERTED AREAS STUDY				162,500		162,500	325,000		325,000
EQUIPMENT					85,000	85,000		85,000	85,000
				457,500	85,000	542,500	915,000	85,000	1,000,000

USAID PURCHASED OFFICE EQUIPMENT FOR EXECUTIVE CANAL COMMITTEE:

Office equipment	
Office chairs (10)	3,500
Desks (10)	4,000
Conference room table	1,100
Conference chairs	3,000
Small office needs	750
Teleph sys/line install	5,900
Photocopier	4,500
Facsimile machine	1,200
P.C. with printer (10)	50,000
Filing cabinets (5)	3,500
Software/training/set-up	1,800
Contingency	5,750
Total equipment costs	85,000

109-

ANNEX I

ECONOMIC POLICY DEVELOPMENT PROJECT
PROJECT BUDGET DETAIL AND NOTES
PROJECT NO: 525-0313

NOTE 6
EVALUATIONS & AUDITS

FIRST YEAR EVALUATION	\$20,000
EVALUATE CONTRACTOR PERFORMANCE	
EVALUATE PRIVATIZATIONS, REFORMS	
END OF PROJECT EVALUATION	50,000
OVERALL IMPACT	
PROJECT AUDIT	80,000

	\$150,000
	=====

110

ANNEX I

ECONOMIC POLICY DEVELOPMENT PROJECT
 PROJECT BUDGET DETAIL AND NOTES
 PROJECT NO: 525-0313

NOTE 7 COMPUTER COSTS AT CONTRALORIA

QTY	DESCRIPTION	UNIT COST	TOTAL
1	386 COMPUTER	2,310	2,310
1	4 MB RAM		0
1	HARD DISK 150 MB	1,800	1,800
1	MONITOR VGA	147	147
1	FLOPPY DISK DRIVE 3 1/2"		0
1	TAPE BACKUP	1,796	1,796
1	ETHERNET CARD	214	214
5	286 COMPUTER 16 MH	1,711	8,555
5	2 MB RAM		0
5	HARD DISK 40 MB		0
5	MONITOR VGA	147	735
5	FLOPPY DISK DRIVE 3 1/2"		0
5	ETHERNET CARD	214	1,070
1	DOT MATRIX PRINTER	500	500
2	LASER JET PRINTER	1,300	2,600
	NETWORK OPERATING SYSTEM		
1	VINES/386 R 4.0 3.5"	3,597	3,597
	SOFTWARE		
1	DBASE IV DEVELOPERS EDITION MCP V1.1	735	735
1	DBASE IV LAN PACK, 5 USERS, MCP, V1.1	560	560
1	123 REL 2.2 DM PCD NW SERVER	406	406
5	123 REL 2.2 PCD NW NODE	201	1,005
1	WORDPERFECT V 5.1 PCD	235	235
5	WORDPERFECT V 5.1, PCD ADDL NODE	140	700
1	NETWORK MAIL - VINES	597	597
	OTHER		2,438
	TOTAL COMPUTER COSTS		30,000

ANNEX I

ECONOMIC POLICY DEVELOPMENT PROJECT
 WORKSHEET TO CALCULATE AVERAGE COST PER MONTH OF TA
 BASED ON ILLUSTRATIVE BUDGET OF AN EXISTING CONTRACT

	ILLUSTRATIV BUDGET	PERSON MONTHS
DIRECT LABOR	195,147	30 ^
FRINGE 30% X	58,544	
OVERHEAD 45% X	114,431	
TRAVEL & TRANSP	93,248	
EQUIPMENT	25,000	
SUBCONTRACTS		
BIG 8 FIRM	56,659	3 &
ACTUARIAL FIRM	69,982	6 *
CONSULTANTS	35,000	5 ^
OTHER DIR COSTS	75,865	
G&A 11% X	79,626	
FEE 7.5%	56,013	
	\$859,515	44

AVERAGE TOTAL COST PER MONTH FOR PROFESSIONAL TA **\$20,000**

* SENIOR CONS 43 DAYS; JR CONS 51; TECH 52. NOTE THAT THIS IS ACTUAL.
 ^ CALCULATED AT \$275/DAY 24 DAYS PER MOS
 & CALCULATED AT \$939/DAY 20 DAYS PER MOS

ERNST YOUNG PROFESSIONAL DAYS	TOTAL		
PROFESSIONAL #1	13.50	4.50	18.00
PROF #2	0.25	13.50	13.75
			31.75
COST	\$387	\$24,448	\$4,978
			\$29,813

11/9/90 10/22/90 9/11/90

ERNST YOUNG AVERAGE PROFESSIONAL COST/PER DAY **\$939**

112

**LIST OF PUBLIC AND PRIVATE SECTOR REPRESENTATIVES
MET DURING PROJECT PAPER DESIGN 2/18-3/4, 1991**

- Lic. Abdiel Ledezma, Centro de Capacitación
Ministry of Planning and Economic Policy (MIPPE)
- Dr. Luisa de Soto, Secretaria General, MIPPE
- Dr. Marcial Mendoza, Oficina del Area Canalera, MIPPE
- Mr. Alberto Navarro, Privatization, MIPPE
- Eng. Rodrigo Marciacq, Director
IMA (Instituto de Mercadeo Agropecuario)
- Lic. Amílcar Villarreal, Director de Estadísticas y Censos,
CONTRALORIA
- Lic. Juan B. Chevalier, Minister of Commerce & Industries
- Mr. Jorge Endara, Director of Social Security (CSS)
- Mr. Juan Carlos Crespi, United Nations Representative
- José Galán Ponce, Investigacion y Desarrollo S.A. (INDESA) and
Fundacion para el Desarrollo Economico y Social (FIDES)
- Dr. Mario Galindo, Minister of Treasury
Ministerio de Hacienda y Tesoro
- Mr. Yalcin Baran, World Bank, Team Leader for Economic Recovery
Loan Negotiations
- Mr. Jose Chen Barria, Deputy Comptroller
CONTRALORIA
- Lic. Carmen Nuñez, MIPPE (Deals with training requirements of
the Panama Canal)
- Arq. Jorge Riva (in charge of contract to develop terms of
reference for Panama Canal study)
- Lic. Luis Eduardo Guizado, Oficina de Asuntos de Tratados del
Canal, Ministerio de Relaciones Exteriores
- Congressman Leo González, Presidente, Comisión de Asuntos del
Canal de Panamá, Asamblea Legislativa
- Mr. Marco Fernández, Central American Institute for Business
Administration (INCAE) and Investigacion y Desarrollo S.A.
(INDESA)