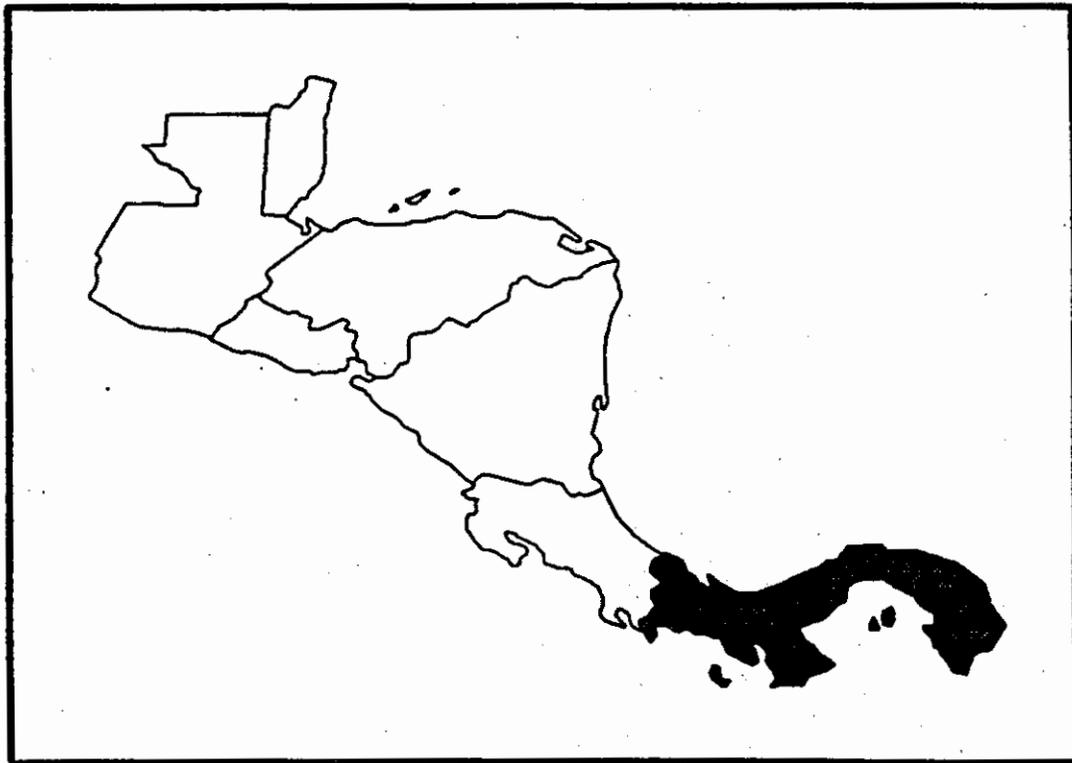


**PANAMA
ACTION PLAN**

1995 to 1996



**USAID/PANAMA
FEBRUARY 1994**

USAID/PANAMA
 ACTION PLAN INDEX
 FY 95 - FY 96

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Technical Annex

FOREIGN
POLICY
OBJECTIVE

SUCCESSFUL IMPLEMENTATION OF THE CANAL TREATIES

MISSION
GOAL

A DEMOCRATIC FREE- ENTERPRISE PANAMA

AGENCY
GOALS

To Build
Democracy

To Achieve
Broad
Based Economic
Growth

To Protect
the
Environment

MISSION
STRATEGIC
OBJECTIVES

*Competent
Civilian
Government
Institutions and
Greater Citizen
Participation*

*Improved Economic
Policies/Business
Climate*

*Preservation of
Natural
Resources*

PROGRAM
OUTCOMES

*Institutionalized fair
and expeditious
criminal justice
process*

*Administrative structures
for canal/reverted areas
management selected,
transfer plans developed
and implementation begun*

*Strengthened
institutional capacity
of INRENARE*

*Improved public
sector financial mgt
and accountability*

*Improved macroeconomic
and fiscal policy*

*Long-term
environmental fund
operational*

*Transparent and
efficient Electoral
Tribunal in operation*

*Increased and diversified
exports*

*Improved
management of
national
parks/reserves*

*Civic participation in
the democratic
system*

*Increased availability of
low cost housing*

*Improved
management of forest
lands/watersheds*

A. STRATEGY OVERVIEW**1. Introduction**

The principal justification for the USAID/Panama program remains as it was when activities were re-initiated in early 1990: to contribute to the achievement of the U.S. foreign policy objective of successful implementation of the Canal Treaties. While this foreign policy justification is unchanged (and, in fact, will remain valid through the end of the decade), the program has shifted from the short-term recovery and reactivation focus which characterized its initial period. It now emphasizes carefully targeted assistance -- primarily technical assistance and training -- to strengthen selected institutions which are important to establishing an environment of political and economic stability. Stability, in turn, will engender domestic and international confidence that post-2000 dependability and efficiency of the Canal will be unaffected by the transfer of operational responsibility to Panama.

With the shift of program emphasis complete, the Mission has revised its strategic objectives to reflect a medium-term, institution-building orientation. The rationale for reducing the number of strategic objectives from five to three, as well as a corresponding reduction in program outcomes and indicators, is discussed in the Technical Annex.

Consistent with its "foreign policy" designation, the country's relatively better economic standing (in comparison to its neighbors), and our funding allocations, the USAID/Panama program does not contain direct poverty alleviation activities. Rather, the focus of the program is at the institutional level and the individuals who make those institutions work. The implicit assumption is that if they work properly and provide better service, the institutions will attain increased credibility and a greater willingness of the general population either to turn to them for services, or to seek redress for grievances through them (e.g., a justice system that efficiently moves cases through the courts) or to participate in a civic duty (e.g., voting). In this way, the program contributes to increased access and participation by the disadvantaged in Panama's development activities.

Overall, the Mission's strategic objectives conform directly with three of the Agency's goals as articulated in the January, 1994, strategy papers: building democracy, achieving broad-based economic growth, and protecting the environment. The only goal not covered by our program is population/health. This goal, in fact, is important in Panama, particularly in the rural areas; however, we do not have the resources (human or financial) to devote to it. As noted in last year's Action Plan, we believe population is a significant issue which can undermine the economic progress of the last four years. Attention to this issue is needed now to keep it from becoming a major problem in the coming years.

As in past years, we have not included indicators related to the ESF funded Improving Police Services Project since it is managed by the Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP). Under the existing financing and implementation arrangements, USAID has only a coordinating role with ICITAP and is not in a position to establish program outputs or indicators related to police activities. It should be noted, however, that improved police services are an essential part of creating the stable democratic environment Panama needs as it prepares to assume full control of the Canal. For that reason, despite scarce ESF resources, every effort should be made to include funding for the program during the planning period so that progress to date can be consolidated.

2. Progress in Reaching Strategic Objectives

Within the revised strategic objectives presented in this Action Plan, progress has been visible although uneven. Most progress has been achieved under the Mission's Democracy Objective: competent civilian government institutions and greater citizen participation. A considerable number of training activities (e.g., case management in the judicial sector, and systems in the management of public financial resources) have already led to improvements in operational effectiveness. In the area of elections, preparations for the May, 1994, general elections have proceeded smoothly, and a recent opinion poll showed that a large majority of the population believe the elections will be fair and transparent. Finally, in the area of budgeting and financial control, the Government is in the process of adopting standardized budgeting and accounting systems.

For the strategic objectives of improved economic policy/business climate and preservation of natural resources, 1993 also saw some advances. The Government of Panama's (GOP) economic program has moved forward in some areas but fallen back in others (see below). On the other hand, positive action was taken on Treaty issues related to management of the Reverted Areas and Canal operations. A potentially important initiative in the area of the environment was the approval of a new forestry law; however, full implementation of the Mission's Natural Resources Management (MARENA) project remained constrained by delays in establishing an endowment fund which is central to the sustainability of planned activities.

a. Economic and Political Developments

Panama continued to enjoy a high rate of economic growth -- approximately 6.0% in 1993 after growth rates of 9.6% and 8.6% in 1991 and 1992, respectively. Unemployment remained a major concern but continued a slight downward trend and was officially reported to be 12.5% in 1993 (down from almost 16% in 1991 and 13.6% in 1992). Other economic progress, however, has been uneven. In the area of trade liberalization, the GOP eliminated specific tariffs on 287 customs

classifications and reduced ad valorem rates, which resulted in USAID disbursing the final tranche of our cash transfer assistance. Late in the year, the GOP initiated action to eliminate all remaining specific tariffs, but issuance of final decrees was held up following complaints from domestic producer and business groups. On the fiscal side, IMF targets were met despite a public sector wage bill that continued to grow and a reduction in tax revenues (in part, the result of price liberalization and a corresponding drop in the tax base). A consequence of the tight fiscal situation was a limited amount of funding for the GOP's investment budget. Also, the GOP continued its policy of no payments to its commercial bank creditors, although it did meet with the Bank Advisory Committee to continue discussions on a debt restructuring package. In terms of the World Bank and the IDB programs, progress was also uneven but sufficient enough so that both institutions agreed to extend their programs to early 1995.

Panama continued to make progress toward joining GATT. An office has been established to deal with GATT issues, documents have been prepared related to the process of joining, and side negotiations with the U.S., Canada, the U.K., and Japan will take place this year. Negotiations will give these countries special access to certain markets in Panama. The GOP hopes to join the GATT in early 1995. Joining GATT will require more strict policy discipline than Panama has been accustomed to, but the country's leaders appear to be willing to accept these challenges. In addition, bills have been introduced in the National Assembly to establish a "one-stop" licensing center for businesses wishing to begin operations in Panama and a law that will facilitate tourism development. These bills are backed by the private sector.

Preparations for the general elections were a principal political development in 1993. The Electoral Tribunal conducted an intensive and effective civic education campaign to generate interest in the elections and encourage eligible voters to register. As a result, 96% of the voting age population is registered, and public opinion polls show that a large majority of these voters intend to cast ballots. These same polls indicate that the voters believe they will participate in free, honest elections. The openness of the political system is demonstrated by the fact that 16 parties covering the spectrum of politics and personalities were officially registered for the elections. Among them, these parties ultimately nominated seven presidential candidates to be included on the ballot.

b. Canal Treaties

The GOP took two major steps in terms of its preparations to implement the Canal Treaties. In February, 1993, President Endara signed the law creating the Inter-Oceanic Regional Authority (known as ARI by its Spanish acronym) which is responsible for planning and managing the use of U.S. military and Panama Canal Commission lands and facilities to be reverted to Panama in accordance with the Treaties. ARI was the

product of months of review and debate by the Legislative Assembly, and every step of the process received extensive coverage by Panama's aggressive media -- both important indicators of a democratic process taking hold. Selection of ARI's board of directors and senior manager were made on the basis of merit rather than political favor. Also, ARI has maintained its independence from political manipulation.

The second step taken by the GOP was to prepare an addition to the Constitution for the purpose of creating a Panama Canal Authority (ACP) to direct the operations of the Canal itself. The proposed addition was approved by the National Assembly in December, 1993 and, in conformance with the Constitution, now awaits approval by a second Legislature. Final approval, therefore, must wait for the next Assembly to be seated in September, 1994. In the meantime, work continues on the preparation of an organic law for the ACP, as well as on a strategic plan which will set an agenda of activities that the GOP must complete by December 31, 1999, in order to be prepared to assume full operational authority for the Canal.

c. Participation

While the principal orientation of USAID/Panama's program is at the institutional level, participation of different groups is an important element which flows from our institution building efforts. The best example is in the area of elections where, through civic education activities, a concerted effort has been made to ensure maximum participation in a fundamental democratic right -- voting. As part of this process, the Mission involved a local NGO which has developed a specific expertise in civic education. The NGO reached citizens throughout the country to encourage voter registration, and its staff also assisted the Electoral Tribunal in updating the actual voter registry.

Under its CLASP project, the Mission has encouraged direct community participation through the creation of provincial committees. These volunteer groups identify training priorities based on community needs, and help in the selection process of potential scholarship recipients. It has proven to be an excellent mechanism to facilitate this portion of project implementation.

The most direct form of participation fostered by the Mission which reaches down to meet the needs of the disadvantaged is our Special Development Activities project. This program dates back to the 1960s and is designed to promote community self-help activities. The communities identify priority development projects and agree to finance at least 50% of the cost (usually labor and local materials). Implementation of the projects is the responsibility of community committees established for this purpose. When appropriate (e.g., the project involves a water system for the community), these committees are also responsible for collecting user fees to cover maintenance

costs. With a maximum USAID input per project of \$8,000 (to purchase materials), these projects have a major impact in communities that otherwise often receive no assistance in meeting their basic needs.

Finally, in the area of participation, the Mission is providing small amounts of technical support to a commercial bank that has moved aggressively into micro and small enterprise lending. In just over a year, the client base has grown to 1,000 with a portfolio in excess of \$2.0 million (all capital is provided by the bank from its own resources). The experience of this technical assistance activity has been excellent and has allowed the borrowers to participate more fully in the economy and to grow as business enterprises.

d. Donor Coordination

The Mission stays in close contact with the IFIs, which are the principal donors in Panama. Coordination started when the Mission also had a major macroeconomic, policy-based program in which the conditionality was closely linked to that of the IFI programs. Although our macro program has been completed, Mission staff follow the GOP's economic program closely and consult on a regular basis with IFI personnel on issues related to the program. This has been helpful in presenting a united front to the GOP and keeping pressure up to move its program forward. The Mission has been very satisfied with the degree and effectiveness of this coordination effort.

B. ACHIEVEMENT OF AGENCY GOALS

AGENCY GOAL: TO BUILD DEMOCRACY

Mission Strategic Objective 1: Competent Civilian
Government Institutions
and Greater Citizen Participation

(This Strategic Objective has been modified substantially from last year's Action Plan. The rationale for this change is covered in the Technical Annex.)

Significant progress is being made both in the development of key democratic institutions and in civic confidence and participation in democracy. The judicial sector continues to be funded above the constitutionally mandated minimum of 2% of the central government budget. However, problems persist in capital improvement needs, levels of trained personnel, and case backlogs.

Four program outcomes relate to this Strategic Objective:

Program Outcome 1: Institutionalized fair and expeditious criminal justice process

Notable progress was made within the court system in implementation of the first phases of a new case management system, and filling more positions through a competitive skill-based process in the judiciary. The Attorney General's office (Public Ministry) also made improvements, including participation in the case management system and considerably improved coordination between police investigators and prosecutors.

Efficiency in the processing of cases is improving. This is critical or Panama because, of all institutions, the judicial system is seen by the general population as being the most inefficient and falling short of expectations. In 1993, there was a 3% decrease in the number of people in jail awaiting trial, even though the judicial system received substantially more cases over the same period. Some 39 offices (which handled 48% of all cases in 1992) began to implement a new case management system which allows uniform tracking, expedites handling, and increases accuracy of reports while decreasing the time spent in reporting. The case management system will be applied in all of the 239 judiciary and Public Ministry offices by 1996.

The court system is proceeding with competitive hiring under its "judicial career" service which establishes standards for hiring, retention, and promotion, and also protects against dismissal for political reasons. Some 250 positions were filled through competition

in 1993, an increase of 90% over 1992. The Public Ministry has been less aggressive in making needed changes. Its career service law has been languishing in draft without action by the Attorney General. Action is expected this year. The Public Ministry has been active in integrating the work of the Judicial Technical Police (the investigative arm of the police) and prosecutors through USAID-sponsored efforts in the Second Judicial District. The model developed there will be expanded to two more of the four judicial districts in 1994. In addition there are nascent efforts in the Drug Secretariat and the Auxiliary Prosecutor's Office to increase efficiency in movement of cases, and to reduce opportunities for corruption.

Program Outcome 2: Improved public sector financial management and accountability

In 1993, activities under the Financial Management Reform project (525-0306) resulted in reforms both at the grassroots bookkeeping level and at the highest levels of public finance, and received national level recognition. The GOP adopted a USAID-financed manual for national budget preparation and submission. This manual was used government-wide to prepare the FY 1994 budget, which in turn permitted easier comparison to be made among the various GOP entities on obligation of funds. A national system of accounts is also being put into place for the entire public sector. USAID helped the GOP and all professional associations in Panama in drafting and review of a manual on "Generally Accepted Auditing Standards." All GOP audits are now based on these standards.

Also, over 6,000 Panamanians were trained in budgeting, accounting, managing public debt, and auditing. In addition, two national universities are now developing courses on the new GOP accounting system that is based on USAID-developed manuals and systems that are being adopted by the Government. All students planning to become CPA's will be required to take these courses.

Program Outcome 3: Transparent and efficient Electoral Tribunal in operation

The Electoral Tribunal is in the final stages of preparations for national and local elections on May 8, 1994. All critical steps, including voter registration, civil registry updating, civic awareness campaigns, information systems, and personnel training are either completed or are on schedule for the elections. Simulations are being conducted to determine and correct flaws in the system.

A recent poll of public confidence in various government and non-government institutions showed that, second only to the Catholic Church, the Electoral Tribunal was considered to have the most integrity of all other institutions listed in the poll.

Program Outcome 4: Civic participation in the democratic system

An intensive publicity campaign led 57% of all eligible voters to come forward to register to vote or verify their voter registration information. Added to those already verified, approximately 96% of all eligible voters are properly registered for the May elections. Preliminary polls indicate that over 90% of eligible voters intend to cast ballots. For most voters, this will be their first opportunity to participate in free honest elections. Some 16 registered parties are active and cover the spectrum of politics and personalities.

A Panamanian NGO, under grant funds from the Improved Election Administration project (525-0317), has been a leader in voter education activities and can take considerable credit for the level of interest in and knowledge of the democratic process that has been developed over the past year.

In a follow-up to the Mission's scholarship program (CAPS and CLASP), returned participants have established an association to provide a mechanism through which they can maintain a network and advance their own professional growth. Although still in the early years of their careers and not yet earning large incomes, association members have established a scholarship program (financed through their own contributions) to assist economically disadvantaged school children to afford the cost of obtaining quality education in local schools. The commitment of the association members in this initiative demonstrates their appreciation for participation of the disadvantaged in determining their economic future.

Table 1: Strategic Objective Program Tree

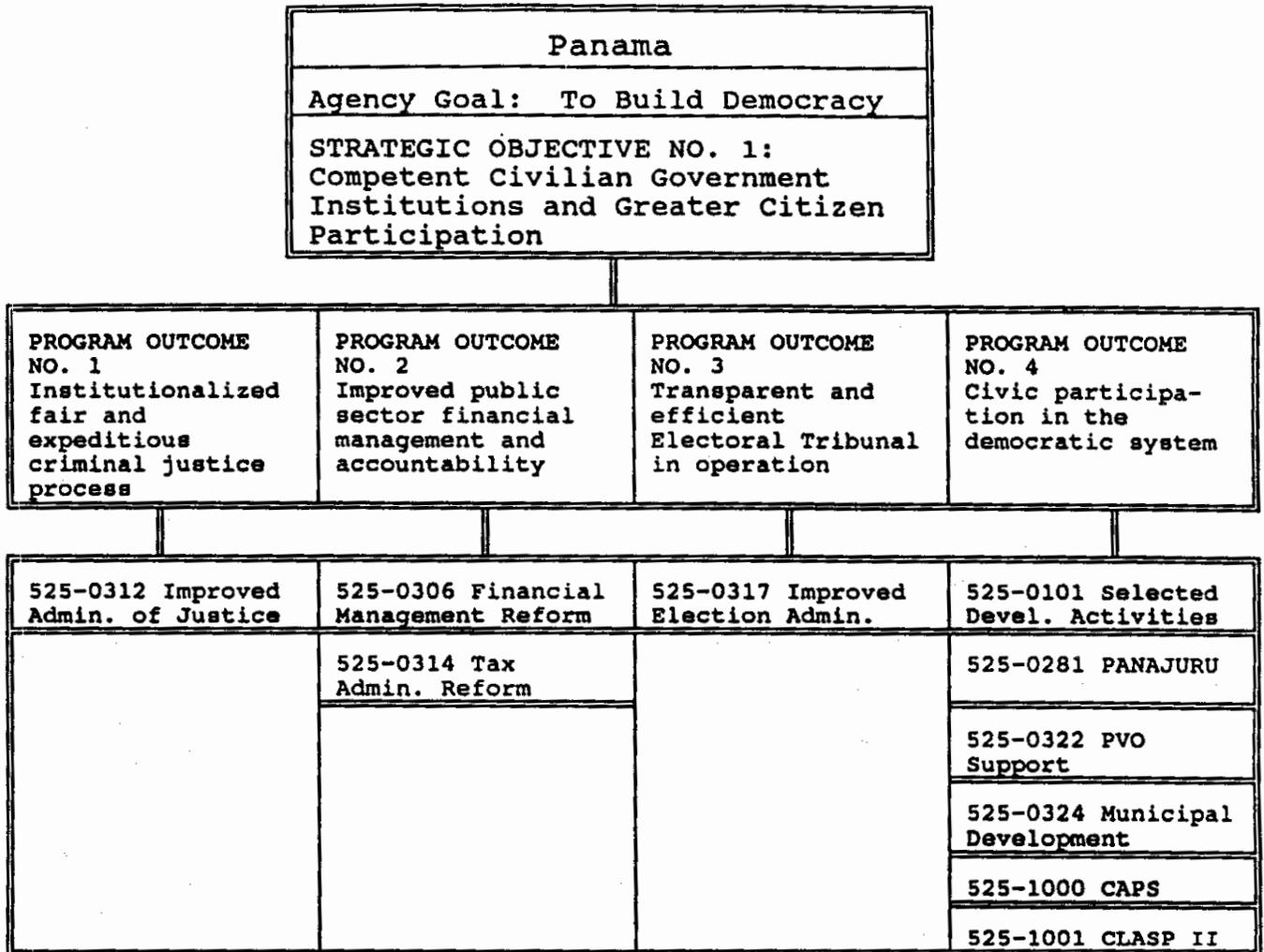


Table 2: STRATEGIC OBJECTIVE PERFORMANCE
STRATEGIC OBJECTIVE INDICATORS

Panama
STRATEGIC OBJECTIVE NO. 1 - Competent civilian government

[REDACTED]

PROGRAM OUTCOME INDICATORS

STRATEGIC OBJECTIVE NO. 1: Competent civilian government institutions and greater citizen participation				
PROGRAM OUTCOME NO. 1.1: Institutionalized fair and expeditious criminal justice process				
Indicator 1: Judicial career positions competitively filled				
Unit: Cumulative number of positions filled competitively		Year	Planned	Actual
Source: Court and Public Ministry reports	Baseline	1992	----	131 61% M 39% F
Comments:		1993	250	250
		1994	500	
		1995	750	
	Target	1996	1000	
Indicator 2: Court and Public Ministry incorporated into a caseload tracking system				
Unit: # of offices using system (cumulative)		Year	Planned	Actual
Source: GOP and project reports	Baseline	1992	----	----
Comments: *Pilot effort was postponed to 1993 ** The offices which now use the caseload tracking system carried 48% of Panama's total cases in 1992 ***Current total of Judiciary and Public Ministry offices		1992	4	0*
		1993	50	39**
		1994	112	
		1995	205	
	Target	1996	239***	

STRATEGIC OBJECTIVE NO. 1: Strengthened competent civilian government institutions and greater citizen participation

PROGRAM OUTCOME NO. 1.2: Improved public sector financial management and accountability

Indicator 1: Audit findings corrected, as recommended by Controller General Audit Reports

Unit: % of audit findings corrected to the total found needing correction		Year	Planned	Actual
Source: Controller General's reports	Baseline	1992	----	----
Comments:		1993	50%	20%
		1994	75%	
		1995	90%	
	Target	1996	95%	

Indicator 2: Executive agencies implementing new accounting system

Unit: % of agencies		Year	Planned	Actual
Source: Controller General's reports	Baseline	1992	----	----
Comments:		1993	1%	3%
		1994	10%	
		1995	80%	
	Target	1996	100%	

Indicator 3: Public agencies with uniform budget in operation

Unit: % of agencies		Year	Planned	Actual
Source: Ministry of Planning reports	Baseline	1992	----	----
Comments: GOP adopted new budget system for all public sector entities beginning with preparation of the FY 1994 budget.		1993	0%	100%
		1994	50%	
		1995	75%	
	Target	1996	100%	

STRATEGIC OBJECTIVE NO. 1: Strengthened competent civilian government institutions and greater citizen participation

PROGRAM OUTCOME NO. 1.3: Transparent and efficient Electoral Tribunal in operation

Indicator 1: Capacity to report accurate full national election results expeditiously

Unit: % of results reported within 24 hours		Year	Planned	Actual
Source: GOP records	Baseline	1991	-----	0*
Comments: *In January, 1991, partial election results were reported 48 hours after polls closed **In November 1992, results of a yes/no national referendum were reported 12 hours after polls closed No elections were held in 1993		1992	-----	100%**
		1993	-----	-----
	Target	1994	100%	

Indicator 2: Public confidence in the Electoral Tribunal

Unit: % increase in confidence		Year	Planned	Actual
Source: Sample surveys by CAPEL and/or media	Baseline	1992	-----	32%
Comments: 1993 % is from a sample survey 11/93 by CAPEL 1994 % is from a sample survey 01/94 conducted by <u>La Prensa</u> and will be updated		1993	37%	56%
	Target	1994	42%	(58%)

STRATEGIC OBJECTIVE NO. 1: Strengthened competent civilian government institutions and greater citizen participation

PROGRAM OUTCOME NO. 1.4: Civic participation in the democratic system

Indicator 1: Voting rights exercised by increased numbers of eligible voters

Unit: % participation of eligible voters		Year	Planned	Actual
Source: Electoral Tribunal, news media, international observers	Baseline	1992	48%	40%
Comments: 1994 is preliminary, from a sample survey conducted by <u>La Prensa</u> 01/94. Actual figure will be available after the May 8, 1994 election		1993	----	
	Target	1994	70%	(91.6%)

Indicator 2: Increased participation in public interest organizations dedicated to increasing public participation in democratic processes

Unit: Number of legally registered NGOs of this type		Year	Planned	Actual
Source: Ministry of Government and Justice records	Baseline	1992	----	5
Comments: *20% increase over previous year		1993	20%*	20%
	Target	1994	20%*	

AGENCY GOAL: TO ACHIEVE BROAD BASED ECONOMIC GROWTH

Mission Strategic Objective 2: Improved Economic Policies/Business Climate

The smooth transfer and post year-2000 operation of the Panama Canal is at the center of U.S.G. interests in Panama. An outward oriented economy characterized by sustained broad-based growth is a necessary condition for ensuring the economic and political stability needed to facilitate the transfer. Further, both are necessary for the long term interests of Panama and for continued confidence of international shipping companies in expedient and reliable passage of commerce through the Canal. The importance of the Panama Canal and related areas to the country's economic future can hardly be overstated. The next five years will determine whether Panama will become a responsible middle-income country or will have missed its opportunity.

Although Panama has enjoyed high rates of growth since 1990, growth is slowing as the period of recovery from the crisis years of the late 1980s ends. Panama, like most of Latin America in the 70s and 80s, followed statist, inward looking economic policies. This led to highly protected and inefficient producers, limited exports, and ineffective bureaucracies that limited growth. To achieve sustainable broad based growth, economic policies and the general business climate in Panama must be improved. USAID/Panama, in conjunction with the IFI's, has encouraged an outward looking, market-oriented approach.

The Mission is also encouraging efforts to improve the business climate. USAID contracted some of the best authorities in Panama to examine how business licensing procedures could be improved. Analysis showed that changes to existing legislation were required to streamline the bureaucratic process. New legislation has been drafted which has been endorsed by the private sector, the Executive, and key groups in the National Assembly. Assembly action is expected in 1994, which will result in a "one-stop" licensing center greatly reducing requirements and time needed to obtain business licenses.

Four program outcomes relate to this Strategic Objective:

Program Outcome 1: Administrative structures for Canal/reverted areas management selected, transfer plans developed and implementation begun

A major advance took place in 1993 when the Legislature Assembly approved a law establishing the Inter-Oceanic Regional Authority (ARI) to manage and develop the reverted areas. A nine member board of directors was appointed and an administrator hired. ARI has been slow in getting needed staff in place, taking the time to assure that those selected have the experience necessary to make a positive contribution. ARI has also been slow taking action to develop a

master plan for the reverted areas/watershed which is required by legislation as a condition for implementing any activities. Award of the contract to prepare this plan should be made in March, 1994.

USAID is assisting ARI with technical assistance and geographic information system equipment it will require to manage the information base on the properties under its jurisdiction. USAID is also providing technical assistance to the Panamanian presidential commission charged with developing a strategic plan for Canal transition. The plan will identify issues that need to be resolved during the remaining years before the actual transfer takes place. It will also indicate which institution(s) should take the lead in the resolution process and provide a timeframe to achieve resolution. A draft plan is now under review with the final plan expected in April, 1994. A constitutional change to establish a Panama Canal Authority (ACP) that will be in charge of Canal operations was passed by the National Legislature in December 1993 and will be considered by a second Legislature in late 1994.

Program Outcome 2: Improved macroeconomic and fiscal policy making capabilities

Progress was made in trade liberalization with steps taken to eliminate specific tariffs and to reduce ad valorem rates. In April, 1993, the Mission disbursed the last tranche of its cash transfer, macro-economic policy assistance in response to this progress. The GOP also made limited progress in eliminating quotas on some agricultural products, lifting price controls, privatization, and improving the social security system. USAID continues to provide technical assistance to support the efforts of the Ministry of Planning and Economic Policy (MIPPE) in implementing the GOP's economic program.

Both the World Bank and the IDB agreed to extend their programs (economic recovery and public enterprise reform, respectively) and to reschedule planned second and third tranche disbursements because, despite slow progress which necessitated the extensions, it was determined that the GOP was moving forward in the face of a difficult political climate. For example, a major push of the public enterprise reform program was the privatization of the state-owned telephone company. The Executive Branch submitted legislation to initiate the process, but political opposition effectively killed it. Nonetheless, the GOP privatization unit achieved one large privatization (Citricos de Chiriqui) and set an agenda for several more in 1994.

The GOP's performance on fiscal policy resulted in IMF targets being met and an extension of the Standby Agreement to September, 1994. The IMF disbursed SDR 9.8 million in December, 1993, and has committed to three additional disbursements in 1994 totalling SDR 29.47 million, assuming continued progress on conditionality. Despite strong efforts over the past four years, however, the GOP must still deal with a high

public sector wage bill, a large commercial debt which will place a heavy claim on resources, and an under-funded investment budget for needed social services.

Program Outcome 3: Increased and diversified exports

USAID supported successful commercial trials of selected non-traditional export crops. Lands were identified where sweet onions could be grown, which resulted in the first exports of sweet onions from Panama. On a smaller scale, different varieties of raspberries, artichokes and asparagus are being planted to determine which have the greatest export potential.

USAID financed an examination of the tourism sector to, among other issues, identify business constraints in this area. After analysis, and review of what other countries in the region were doing in tourism, draft legislation was drawn up to offer incentives and clarify the rules of the game for those wanting to invest in the tourism sector. A private sector organization pushed for approval of this legislation, and appears to have overcome most objections to the bill. It will be on the agenda of the Legislature in 1994.

Program Outcome 4: Increased availability of low cost housing

As part of the 1977 Panama Canal Treaty, the U.S. pledged \$75 million under the housing guaranty program to help finance low and medium income housing. The third and final tranche of this program started in April, 1992, and is channeled exclusively through private banks. USAID anticipates that three to five banks will take part in the program. It provides \$25 million in HG funds, complemented by an additional 20% from the participating banks, and 10% from down payments by buyers. These resources will initially finance about 2,500 homes in the \$10,000-\$18,000 range. Repayments on individual mortgages will be reinvested in approximately 3,500 additional low cost homes, bringing total units financed to 6,000. Two banks signed on to the program in 1993, one of which progressed to drawing down \$7 million in January, 1994. A third bank signed on to the program in February, 1994.

Table 1: Strategic Objective Program Tree

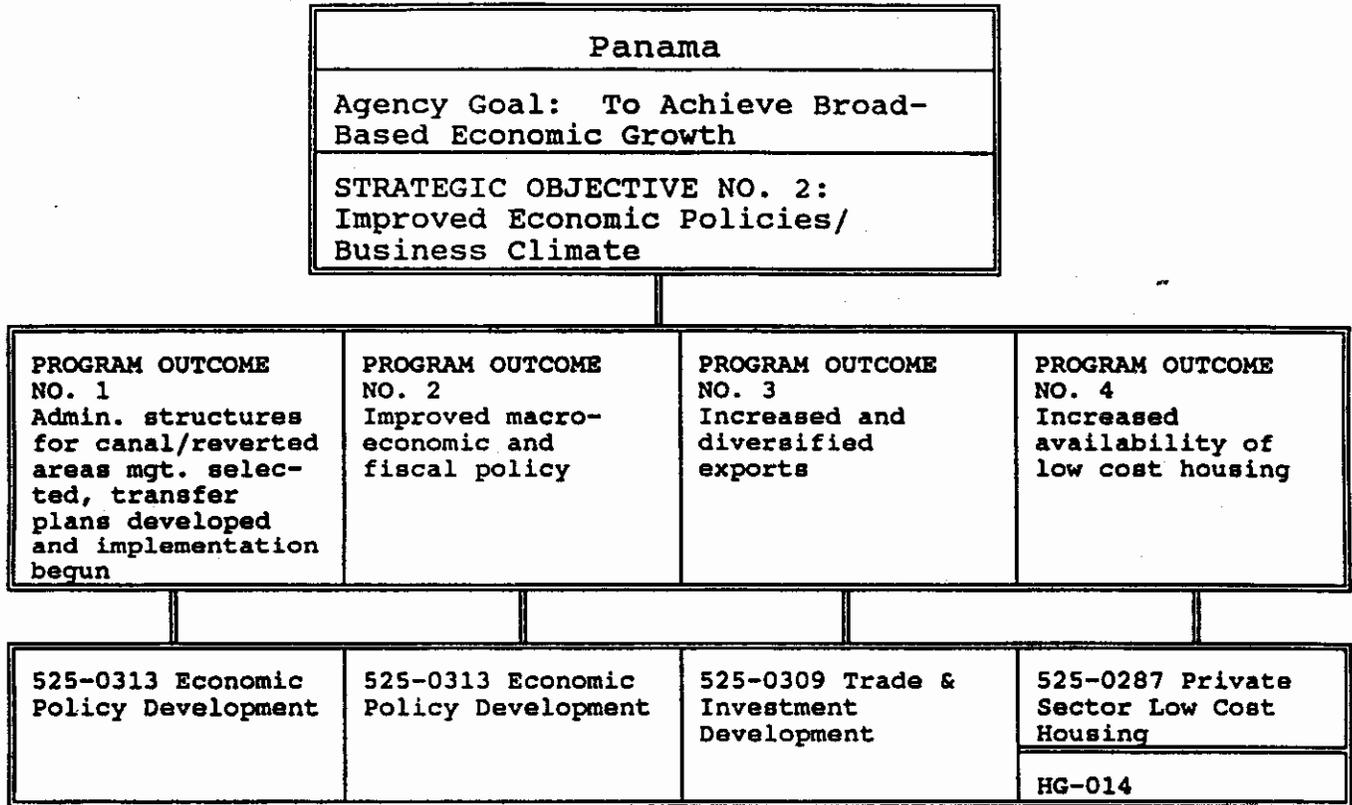


Table 2: STRATEGIC OBJECTIVE PERFORMANCE

STRATEGIC OBJECTIVE INDICATORS

Panama				
STRATEGIC OBJECTIVE NO. 2 - Improved economic policies/business climate				
Indicator 1: GOP adopts an apolitical strategy for Canal management and use of reverted areas by 1996				
Unit: Organizations established with staff - yes/no		Year	Planned	Actual
Source: GOP Official Gazette	Baseline	1991	----	----
Comments: ARI = Inter-Oceanic Regional Authority ACP = Panama Canal Authority		1992	0	0
		1993	ARI	yes
		1994		
		1995	ACP	
Indicator 2: Value (\$) of exports (non-petroleum)				
Unit: \$ millions (current)		Year	Planned	Actual
Source: IMF reports	Baseline	1991	----	451.0
Comments: Baseline and targets are higher than was shown last year, based on better data from the IMF.		1992	521.8	474.2
		1993	571.9	
		1994	633.4	
	Target	1995	702.4	

PROGRAM OUTCOME INDICATORS

STRATEGIC OBJECTIVE NO. 2: Improved economic policies/business climate				
PROGRAM OUTCOME NO. 2.1: Administrative structures for canal/reverted areas management selected, transfer plans developed and implementation begun				
Indicator 1: Law enacted establishing the Inter-oceanic Regional Authority (ARI)				
Unit: Law - yes/no		Year	Planned	Actual
Source: GOP Gazette	Baseline	1991	----	----
Comments:		1992	----	----
	Target	1993	yes	yes
Indicator 2: Law enacted establishing Canal management authority				
Unit: Law - yes/no		Year	Planned	Actual
Source: GOP Gazette	Baseline	1991	----	----
Comments: The GOP has opted for a constitutional change to establish a management entity for the Canal. A constitutional change must be approved by two separately elected assemblies. A new assembly takes office in September, 1994.		1992	----	----
		1993	First Approval	yes
	Target	1994	Second Approval	
Indicator 3: Strategic plan developed for transfer of the Canal, and implementation begun				
Unit: Plan - yes/no Implementation - yes/no		Year	Planned	Actual
Source: GOP reports/direct observation	Baseline	1993	Draft Plan	yes
Comments: First step in implementation process is establishment of a transition entity (1995). GOP will continue implementation through 1999.		1994	Final Plan	
		1995	Entity	
	Target	1996	Implementation	

STRATEGIC OBJECTIVE NO. 2: Improved economic policies/business climate				
PROGRAM OUTCOME NO. 2.2: Improved macroeconomic and fiscal policy				
Indicator 1: Number of specific tariffs eliminated				
Unit: # specific tariffs, cumulative		Year	Planned	Actual
Source: GOP and IBRD reports	Baseline	1991	-----	-----
Comments: The GOP had over 700 specific tariffs. *Initial elimination of 261 tariffs under law 3. **Remaining specific tariffs to be eliminated in 1994.		1992	261*	0
		1993	261	287
		1994	500+**	
	Target	1994	700+	
Indicator 2: Social Security System (CSS) changed to increase minimum retirement age to 55 for women and 60 for men - Complementary fund dissolved				
Unit: Law changing retirement age - yes/no Fund dissolved - yes/no		Year	Planned	Actual
Source: GOP Gazette/Reports	Baseline	1991	-----	-----
Comments: CSS is underfunded, hence the need to increase the minimum age for retirement. The complementary fund, which dates from the military dictatorship, gave higher pensions to favored groups (e.g., nurses). It is now recognized as unfair, underfunded, and in need of abolishment. - Options for dissolving the complementary fund will be developed in 1994. - Implementation of the option selected will take place in 1995.		1992	Change ret. age	yes
		1993	-----	-----
		1994	Fund options	
	Target	1995	Fund dissolved	

STRATEGIC OBJECTIVE NO. 2: Improved economic policies/business climate				
PROGRAM OUTCOME NO. 2.3: Increased and diversified exports				
Indicator 1: Change in private investment				
Unit: % of GDP		Year	Planned	Actual
Source: IMF report	Baseline	1989	----	5.6%
Comments: Private investment increased from \$793.9 million in 1991 to \$1,048.6 million in 1992.		1991	----	14.4%
		1992	14.9%	17.5%
		1993	16.0%	
		1994	16.2%	
	Target	1995	16.5%	
Indicator 2: Contribution of industry to GDP (includes manufacturing)				
Unit: % of GDP		Year	Planned	Actual
Source: IMF report	Baseline	1989	----	8.5%
Comments: Industrial sector output increased from \$368.5 million in 1991 to \$396.5 million in 1992.		1991	----	9.0%
		1992	10.5%	9.0%
		1993	9.3%	
		1994	9.4%	
	Target	1995	9.6%	
Indicator 3: Contribution of agriculture to GDP				
Unit: % of GDP		Year	Planned	Actual
Source: IMF report	Baseline	1989	----	10.5%
Comments: Agricultural sector output increased from \$413 million in 1991 to \$436.6 million in 1992. However, overall GDP also increased and agriculture's contribution to GDP decreased.		1991	----	10.1%
		1992	10.3%	9.9%
		1993	10.3%	
		1994	10.3%	
	Target	1995	10.3%	

STRATEGIC OBJECTIVE NO. 2: Improved economic policies/business climate				
PROGRAM OUTCOME NO. 2.4: Increased availability of low cost housing				
Indicator: Construction of low cost houses financed by HG 525-014				
Unit: # of new low-cost houses		Year	Planned	Actual
Source: Participating private bank reports	Baseline	1992	----	----
Comments: cumulative figures		1993	600	838
		1994	1,200	
		1995	2,200	
	Target	1996	2,500	

AGENCY GOAL: TO PROTECT THE ENVIRONMENT

Mission Strategic Objective 3: Preservation of Natural Resources

The Mission procured Landsat images and computer equipment to establish a natural resources geographic information system (GIS) for the GOP's Institute for Renewable Natural Resources (INRENARE). Installation of the system is a year behind schedule because of difficulties encountered by the supplier in obtaining clear, cloud-free Landsat images for the entire country. GOP staff have been trained and the system should be in operation by mid-1994. It will be used to develop firm baseline data on deforestation and biological diversity throughout Panama. Landsat image updates will be carried out every three years to track changes from baseline information.

Four Program Outcomes relate to this Strategic Objective:

Program Outcome 1: Strengthened institutional capacity of INRENARE

In September 1993, under a PASA with the National Park Service (NPS), a long-term advisor began assisting INRENARE to improve its overall management structure. Short-term technicians from NPS have provided in-country training in areas such as training park rangers and park administration. USAID has also been working to strengthen INRENARE's operational capabilities so that it can take on bigger workloads in areas such as park protection. Technical consultants contracted from Price Waterhouse, and also provided by the GOP Controller General's Office, drawing on developments under the Financial Management Reform project (525-0306), have helped move INRENARE toward acceptable inventory and accounting systems.

Program Outcome 2: Long-term environmental fund operational

The planned debt-for-nature swap to establish an environmental trust fund has proven unworkable because the GOP and the commercial banks holding Panamanian debt could not agree on conditions that would allow the swap. An alternative plan has been developed based on revisions to the Foreign Assistance Act which permit the use of appropriated funds to create an endowment. Under the plan, a \$25 million trust fund will be established with commitments of \$15 million from the GOP, \$8 million from USAID, and \$2 million from The Nature Conservancy. It is expected that the trust fund will be operational by June, 1994.

The trust fund will be administered by a fiduciary agent which will receive its instructions from a committee representing the three contributors to the fund. Fundacion NATURA, a local NGO, has been created specifically to oversee the distribution of revenues generated by the trust fund. NATURA will be the major agent for outreach to other NGOs in participatory community-based activities to protect the

environment. During 1993, USAID provided funds for a small staff at NATURA, and for subgrants through NATURA to other NGOs for environmental education, reforestation, and sustainable agriculture.

Program Outcome 3: Improved management of national parks/reserves

A team of NPS technicians is assisting INRENARE to develop action plans and long-term management plans for five national parks in the Panama Canal watershed area. The GOP will prepare a total of 14 plans by 1998. The Natural Resources Management (MARENA) project, (525-0308), has been instrumental in increasing the GOP's presence in these parks. INRENARE has hired an additional 120 park rangers. The project has provided them with uniforms, boots, radios, motorcycles, boats, and other basic equipment so that the rangers can increase the range and frequency of patrols.

Program Outcome 4: Improved management of forest lands/watersheds

PASA technicians from the U.S. Bureau of Land Management (BLM) are helping with development of a watershed management plan for the Panama Canal watershed area. Five working groups, with representatives from the GOP's inter-institutional technical committee made up of 30 government agencies and NGOs responsible for, or interested in, environmental activities were formed to deal with the following topics:

1. water resources
2. population and infrastructure
3. industrial activities
4. agriculture and forestry
5. institutional coordination and legal frameworks

Working papers have been prepared by each group which will be consolidated into a draft plan. The draft will then be subject to public review. A final plan is due in September 1994.

Table 1: Strategic Objective Program Tree

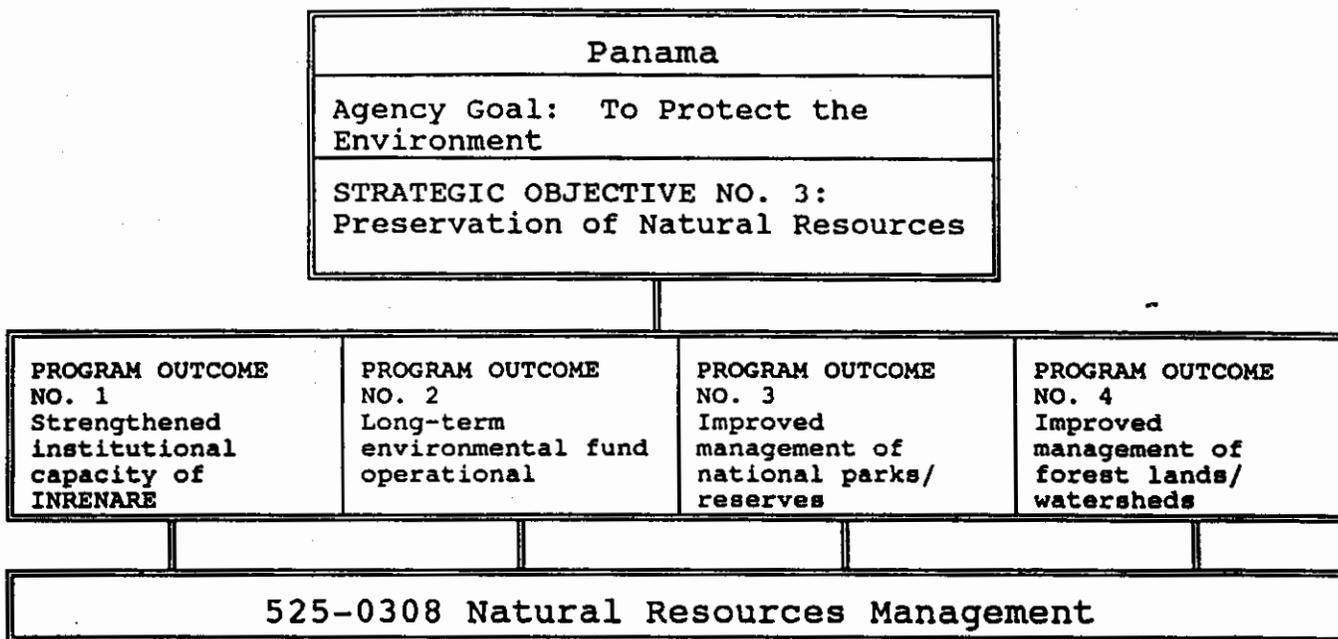


Table 2: STRATEGIC OBJECTIVE PERFORMANCE
STRATEGIC OBJECTIVE INDICATOR

Panama				
STRATEGIC OBJECTIVE NO. 3 - Preservation of Natural Resources				
Indicator: Net number of hectares country-wide deforested annually				
Unit: hectares		Year	Planned	Actual
Source: GOP geographic information system center (GIS)		Baseline	1992	----
Comment: The GIS should be operational by mid-1994. Baseline and targets will be established by October 1994. The GIS will use images taken in 1992/93. Updated images will be taken in 1995.			1994	
			1995	Update
			1996	
		Target	1997	

PROGRAM OUTCOME INDICATORS

STRATEGIC OBJECTIVE NO. 3 - Preservation of natural resources				
PROGRAM OUTCOME NO. 3.1: Strengthened institutional capacity of INRENARE				
Indicator 1: Operations systems in place and functioning (MIS, standard manuals, staff training in systems)				
Unit: yes/no		Year	Planned	Actual
Source: Project reports	Baseline	1993	----	----
Comments:		1994		
		1995		
	Target	1996	yes	
Indicator 2: Financial and management accounting systems (FMAS) established and operational reporting quarterly				
Unit: yes/no		Year	Planned	Actual
Source: Project reports	Baseline	1990	----	no
Comments: FMAS from the GOP's Controller General will be installed with help from the USAID-financed Financial Management Reform project (525-0306)		1992	yes	no
		1993	yes	no
	Target	1994	yes	
PROGRAM OUTCOME NO. 3.2 - Long-term environmental fund operational				
Indicator 1: NGO endowment established and capitalized				
Unit: yes/no		Year	Planned	Actual
Source: Project, GOP and NGO reports	Baseline	1991	----	---
Comments:		1992	yes	no
		1993	yes	no
	Target	1994	yes	

Indicator 2: NGO funding private and public (INRENARE) environmental organizations				
Unit: \$ (000)		Year	Planned	Actual
Source: Audits, NGO reports	Baseline	1991	----	----
Comments: Depends on establishment of environmental endowment, now expected for 1994		1992	----	----
		1993	----	----
		1994	250	
		1995	800	
		1996	1,400	
	Target		1997	1,400

PROGRAM OUTCOME NO. 3.3 - Improved management of national parks/reserves				
Indicator: Park plans approved and being implemented				
Unit: # park plans (cumulative)		Year	Planned	Actual
Source: GOP reports	Baseline	1991	----	----
Comments: Panama has 14 parks/reserves - Spanish aid agency is working in two parks (Portobelo and Coiba)		1992	0	----
		1993	3	----
		1994	5	
	Target		1995	12

PROGRAM OUTCOME NO. 4.4 - Improved management of forest lands/watersheds				
Indicator 1: At least 5 specific watershed plans developed				
Unit: # of plans		Year	Planned	Actual
Source: GOP and project reports	Baseline	1993	----	----
		1994	1	
		1995	2	
	Target		1996	2

Indicator 2: All existing waterways and forested areas in Canal watershed legally declared protected areas				
Unit: hectares (cumulative)		Year	Planned	Actual
Source: GOP reports	Baseline	1992	156,000	160,000
Comments: The entire Canal watershed covers approx. 320,000 ha. which includes 45,000 ha. of reservoirs and waterways; 200,000 ha. of forested areas and 75,000 ha. of agricultural and/or urban land. 1) About 160,000 ha. of forested areas are currently protected within 5 existing national parks. (Actual 1992) 2) 45,000 ha. of reservoirs and waterways declared protected in 1993 3) 40,000 ha. to be included in new National Las Americas Interoceanic Park - Total of 1) to 3) adds to target of 245,000 ha.		1993	245,000	205,000
		1994	245,000	
	Target	1995	245,000	
Indicator 3: Private land reforested				
Unit: hectares, cumulative		Year	Planned	Actual
Source: GOP and NGO reports	Baseline	1991	----	----
Comments:		1992	100	0
		1993	100	
		1994	500	
		1995	1,000	
		1996	1,250	
		1997	1,500	
	Target	1998	1,550	

Sections 118 and 119
Tropical Forestry/Biodiversity

A. Major conservation challenges facing Panama:

Panama's major conservation challenges were identified in the Tropical Forestry and Biological Diversity Analysis prepared by USAID/Panama in April 1992. These challenges will continue for the foreseeable future and include:

Deforestation: The limited information available suggests deforestation of tropical forests is proceeding rapidly, with the year 2005 the resource exhaustion date at present rates of forest clearing for agricultural uses, commercial logging and harvest of fuel wood.

Loss of Biodiversity: Panama contains some of the most complex ecosystems on earth. At least 12 different life zones ranging from subalpine to lowland tropical rainforest exist in the country. Loss of this vast biological diversity is directly linked with deforestation and the conversion of present forests and natural areas to pasture lands and other agricultural activities.

Marine resources are also being adversely affected. Panama has one of the most diverse coastal resource bases in Central America, with broad coastal shelves, coral reefs and rich marine fisheries. These resources are increasingly being affected by conversion of mangrove estuarian areas to shrimp production or coastal real estate development, and by pollution from coastal towns and cities.

Protected Areas Management: Panama has 20 protected areas representing all 12 terrestrial life zones and marine habitats, covering approximately 1.2 million hectares. Most of these protected areas are not fully functional parks and reserves. The GOP lacks trained personnel and necessary equipment to effectively manage these protected areas.

B. Progress made in 1993:

The Panama Canal watershed contains one of the largest concentrations of tropical biodiversity in the world. Five national parks (with a total area of 160,000 hectares) along the banks of the Canal help protect this important portion of the watershed. An additional 45,000 hectares of reservoirs and waterways were declared protected in 1993.

The remaining 40,000 hectares of forest areas within the Canal watershed have been proposed for inclusion in a new "National Las Americas Interoceanic Park." When this new park is established, all of the waterways and forested areas of the Canal watershed will be protected under the national park system. Details of the park's boundaries are being worked out with the newly established Inter-

Oceanic Regional Authority. The Authority receives assistance from USAID's Economic Policy Development project (525-0313).

The Natural Resources Management (MARENA) project, (525-0308), has been instrumental in increasing the GOP's presence (through the GOP's Natural Resource Institute "INRENARE") in these parks. INRENARE has hired an additional 120 park rangers. The project has provided them with uniforms, boots, radios, motorcycles, boats, and other basic equipment so that the rangers can increase the range and frequency of patrols.

The planned debt-for-nature swap to establish an environmental trust fund is unworkable because the GOP and the commercial banks holding Panamanian debt could not agree on conditions which would allow the swap to proceed. An alternative plan has been developed based on revisions to the Foreign Assistance Act which permits use of appropriated funds to create an endowment. Under the plan, a \$25 million trust fund will be established with commitment of \$15 million from the GOP, \$8 million from USAID, and \$2 million from The Nature Conservancy. It is expected that the trust fund will be operational by June, 1994.

C. Recommended follow-up:

1. Encourage formal establishment of the National Las Americas Interoceanic Park.
2. Ensure that the trust fund is established to finance public and private conservation activities.

C. PORTFOLIO ANALYSIS**1. New Activity Description****1. Basic Data**

- (a) Municipal Development Project
- (b) 525-0324
- (c) DA
- (d) 1995/1999
- (e) \$2 million

2. Strategic Fit with the Agency/Bureau goals

Since 1990, the Mission has concentrated on strengthening democratic institutions at the national level. Assistance has been provided to strengthen the media, the justice sector, the National Assembly and the Electoral Tribunal, as well as to improve the financial and management accountability of national officials and institutions. As a result, good progress has been made in both achievement of the Mission's Strategic Objective of Competent Civilian Government Institutions and Greater Citizen Participation and attainment of the respective Agency and LAC Bureau democratic goals of Building Democracy and Supporting the Evolution of Participatory Democratic Societies.

To ensure continued progress in the achievement of these goals, it is crucial to begin addressing the country's needs for democratic reform at the grass roots level. Effective local level governmental organizations which are responsive to the demands of their citizens and allow for their participation in decision making will complement and reinforce efforts to promote democracy at the national level. The major focus of the proposed project will be on: (a) local development and empowerment; (b) decentralization from the national level, and (c) the need for enabling legislation to provide local governments with both increased financial autonomy and operational measures which will facilitate greater involvement of the citizenry in the decision making processes. By improving the capability of municipal governments in Panama to assume a greater role in decision making at the local level and to manage their assets, the proposed project will directly contribute to increased civic participation in Panama's democratic system and to improved public sector financial management and accountability.

3. Consistency with Mission strategy

Local government in Panama has been seriously deficient both in its democratic character and in its ability to respond to the legitimate demands of its constituency. Until this year, mayors were named by the Executive Branch of the National Government which made local leadership responsive to that branch of government and not to the community. Authority over basic services and control over financial resources are extremely limited at the local level. The tax base supporting local government is practically non-existent (the local government sector's total income [67 municipalities] is only 3% of the central government's income, in contrast to other Central American countries where it averages 8-10%). This creates a heavy dependence by local interests on the central government, which is not structured to respond efficiently to local demands.

Political reforms of the municipal system in Panama, beginning with the direct, democratic election of mayors for the first time in the elections of May, 1994, present an opportunity to facilitate profound changes which will further enfranchise Panamanian communities to participate in the democratic and developmental processes occurring in the country. Strengthened community government will permit local decisions to be made concerning the allocation of public services and financial resources and enable each community to freely pursue its own identified goals.

The proposed project will respond to community needs by addressing such areas as:

1) Reforms to the Municipal Legal Framework

-Technical assistance will be provided for the identification and prioritization of the legal needs of municipalities and assistance to the Panamanian National Assembly in the preparation of necessary legislation. Assistance will also be provided for adapting outdated local municipal codes and other regulations to fully conform with revised Municipal Codes legislated by the National Assembly.

2) Extension of decentralized services

-Technical assistance will be provided in the standardization of decentralized services. This would include such activities as the establishment of standard methods for tax assessment, preparation of standard accounting manuals and inventory control procedures, and establishment of standards for maintenance and/or procurement of infrastructure which the municipalities would adopt.

3) Municipal Management Administration Skills/Constituent Involvement

-Training and technical assistance will be provided to improve municipal administration and to establish systems and procedures to assure and promote citizen involvement in the municipal decision making process.

4) Municipal Credit worthiness

-A major benefit of project efforts will be enhancement of municipality credit worthiness through a combination of-improved management, strengthened financial control systems and better tax bases. The project will facilitate development of linkages between the municipalities and Panama's banking system to promote direct lending.

(a) Activity Goal: Greater citizen participation in grass roots democratic practices and procedures.

Preliminary verifiable indicators would include:

-integration of citizens, local NGOs and organized community action groups into the local government decision making processes,

-free and fair municipal elections held on a regular basis.

(b) Activity Purpose: Development of a system of independent, competent and democratic local government institutions and processes that are responsive to citizen participation.

Preliminary verifiable indicators for achieving this purpose would include:

-devolution of operating authorities and financial resources to municipalities,

-establishment of model systems for revenue collection, accounting and financial control and investment planning,

-at least one-half of the municipalities are considered credit worthy by commercial credit sources.

Strategic Objective and Program Outcome indicators will be developed during the project design.

(c) Anticipated impact on poverty alleviation, access, and participation including gender level impact: The 65 municipalities outside of Panama City and Colon contain the poorest and most disenfranchised segments of Panamanian society. This project will be

directed at those communities. It will give the poorest groups in each community a greater voice in the operation of their municipal governments and at the same time provide their governments with an improved capability to respond to citizen needs.

(d) Dialogue agenda: Early in project design, preliminary meetings with mayors, councils and local civic organizations would be held to begin identifying problems faced by the communities as well as to assign responsibility for project related activities. Consultants would assist in open meetings with elected officials and citizens groups to discuss where to begin given available resources (local and project) and to create an atmosphere of collaboration leading to active ownership of the project. After a preliminary determination of the need for legislative revisions, the consultants would also assist with an active dialogue between the National Assembly and community groups in preparation for the drafting of enabling legislation required to further the process of de-centralization.

(e) Donor Coordination: Other potential donors for collaboration in this development activity include the UNDP, World Bank, IDB, JICA, CIDA and the Agencia Española de Cooperación (AEC). Contact is maintained with those organizations that have local representatives in Panama. Both the IDB and World Bank are considering infrastructure projects that could impinge on the proposed project's activities. The Mission will coordinate with those institutions to ensure complementarily as their projects are developed.

4. Policy and Design Issues

(a) Sustainability of proposed activities: Beginning with the design phase of the project, engagement of the local constituents in the "ownership" of its activities will be stressed. Project activities will be focused on improving existing institutions as opposed to developing new ones. With enabling legislation to decentralize authority and establish tax bases, the municipalities will have increased access to financial resources which would allow them to fund their technical assistance and training needs.

(b) Potential issues and/or innovative program approaches: A faltering of the world and/or Panamanian economic recovery would undoubtedly impede any transfer of a portion of the tax base from the national to the municipal level.

Project assistance would be provided in the preparation of enabling legislation permitting tax incentives, at the municipal level, to encourage investments for industrial, tourism, marketing and other enterprises, which would provide new income potential for the populace and new revenues to the municipalities, thereby broadening tax bases on a long term basis.

(c) Linkages to and utilization of Global Bureau resources and LAC

regional programs: During the design and early implementation phases of the project, technical assistance from RHUDO/CA would be utilized drawing on activities being implemented under the LOGROS Project (596-0799). Depending on the final project design, other Global and LAC Bureau resources may be used.

(d) Management and support requirements: The project will be managed within the Mission's Office of Democratic Initiatives. It will require oversight by a USDH or US PSC. That individual will be required to work half-time on the project and, therefore, will be available to work on other Mission activities. This individual will be available from existing Mission resources. The project's management burden should decrease substantially during its final years as local organizations are strengthened and take on greater responsibility for project implementation. A potential source of technical assistance is the School of Public Administration, Florida International University (FIU), a Gray Amendment institution, which has a working agreement with Miami--Dade county that permits it to draw on Spanish speaking technical experts in city management. Technical assistance from other Central American municipalities will be identified through the assistance of the Federación de Municipios del Istmo Centro Americano (FEMICA).

(e) Timetable and resource requirements: Utilizing resources from RHUDO/CA to initiate a diagnostic study which would provide a professional assessment of areas of highest priority, the Mission would then draw on expertise provided through FIU to work beyond the diagnostic study and develop a full project design. It is expected this process will be completed in late FY 1995. TA for Project implementation would then be contracted competitively, with implementation beginning the first quarter of FY 1996.

(f) Recommendation on delegation of authority: USAID/Panama

2. Central and Regional Projects

See paragraph 4.(c) above. USAID/Panama can provide scopes of work and management for these central/regional activities when they are working in Panama.

The Mission does not anticipate any other use of central/regional sources during the planning period, unless assistance can be provided at no cost to USAID/Panama. As noted in the last Action Plan, the Mission's budget is barely sufficient to maintain our present tightly-focused program. Funds for buy-ins and/or other participation in central/regional activities are beyond our budget.

D. Resource Requirements

1. Program Resource Requirements

Table 4 presents a summary of the Mission's Development Assistance requirements for the planning period. Two additional program elements which are important to USAID/Panama are not shown, ESF and the Excess Property Program. Although low, the planning figures for FY 95 and FY 96 will allow the Mission to implement the ongoing portfolio of activities and initiate two new starts in FY 95. The new starts contribute directly to the Mission's top priority Democracy Objective and focus on expanding the current institution-building emphasis of the portfolio to include a more participatory orientation for a broader segment of the Panamanian population. Even with a small budget, the projects in the portfolio can be carried out because they finance primarily technical assistance and training which for these projects are relatively low cost in nature.

The ESF funded Improving Police Services project (525-0305) is managed by the Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP). Under current financing and implementation arrangements the Mission has only a coordinating role with ICITAP and is not involved in the budget process for this project. Therefore, we are not including ESF requirements for the project in this Action Plan. Nonetheless, the project has a key role in developing political stability in Panama and, thus, contributes directly to achieving the broader U.S. foreign policy Objective of successful implementation of the Canal Treaties. It is expected that additional time and funding will be required for the project to meet its goals.

The Excess Property Program has provided \$23.4 million in commodities (valued at acquisition cost) from its inception in FY 91 through the end of FY 93. Commodities, provided by the U.S. military and the Panama Canal Commission, range from vehicles through construction materials to food stuffs. For the most part, these items have benefitted local government entities and NGO's operating in the rural areas of Panama. Current projections are that an additional \$5-6 million in commodities will be distributed in FY 1994.

USAID/Panama has focused on a small portfolio of well targeted projects and does not foresee a mortgage problem. Two new starts are proposed for FY 95, a \$2.5 million PVO Support project (525-0322), and a \$2 million Municipal Development project (525-0324). The PVO project was discussed in the last Action Plan, as was a \$6 million Civil Registry project (525-0324). The Mission has decided to hold the latter as a shelf project because of its high cost and projected heavy demand on Mission staff time. In its place the Municipal Development project is proposed (see NAD in Section C). The two new projects particularly fit the Administrator's emphasis on participatory development.

The Mission has three projects started in FY 91 with pipeline problems. Financial Management Reform (525-0306) and Improved Administration of Justice (525-0312) were launched with higher than normal forward funding, expecting large early disbursements. Initiation of project activities, however, took longer than expected. USAID/Panama is dealing with these two projects by deferring planned incremental funding in FY's 93-95, and close monitoring of implementation status. For the third project, Natural Resources Management (525-0308), the major pipeline problem is \$8 million originally earmarked for a trust fund to be created through a debt-for-nature swap. However, the GOP could not obtain approval from its commercial debt creditors to proceed. Two years were spent in negotiations with the banks, and exploration of other arrangements. (More detail on this problem and the alternative arrangement selected, creation of an endowment which will include the \$8 million in the pipeline, is contained under Strategic Objective 3 in this Action Plan.) To keep pressure on the GOP to create a trust fund so that activities begun by the project would be sustainable, the Mission restricted project implementation to activities in the Canal watershed. Project implementation and use of funds will increase sharply in 1994, since an alternative method for establishing the trust fund has been agreed upon, and is now in the final stages of refinement before the funding is put in place.

2. Program Management Requirements - Workforce and OE

At current staffing and OE levels the Mission is able to effectively administer its projects and programs. For Fiscal Years 1995 and 1996, projected OE levels are down only slightly and will permit the Mission to continue effective administration given planned programming levels. (See Table 5 for these projections and proposed Mission staffing levels.)

The Mission has already taken steps to conserve OE funds and absorb a reduction from \$2.8 million in FY 1993 to \$2.4 million in FY 1994. Actions taken in FY 1993 included a minor reduction in FSN staff. In FY 1994, the Mission reviewed FSN staffing and wherever possible moved FSN PSCs to project funding. We also initiated negotiations with the GOP to establish a trust fund in FY 1994 which will cover the cost of FSN staff required to manage the Excess Property Program. These negotiations are going well.

The principal staffing concern of the Mission relates to the expected FTEs for USDHs. While we have not been officially advised, we have been informally told that our FTEs for this staffing category will be reduced to five in fiscal year 1995 and remain at that level for 1996. This is a fifty percent reduction from our current level of ten and would come on top of the loss of three positions sustained by the Mission over the last eighteen months.

A reduction of that magnitude is not possible without a major

retrenchment in project/program activity which will negatively impact on our ability to contribute towards successful achievement of the U.S. Government's over-arching foreign policy objective in Panama - **successful implementation of the Canal treaties.** Given that the Mission's program is so closely tied to this U.S. Government foreign policy objective, our projects by necessity are high profile, requiring considerable contact and interaction at the highest levels of the Panamanian Government and private sector. At the same time, because of the nature of the project portfolio, which is directed at establishing a stable democratic and prosperous environment for the transfer and future operation of the Canal, the Mission's projects and programs are staff intensive. They are concentrated in building democracy, generating economic policy reform and strengthening environmental protection. All of them require large amounts of day-to-day, one-on-one efforts in order to obtain needed changes.

The Mission has carefully reviewed its staff requirements with achievement of that foreign policy objective and its portfolio requirements in mind. Based on that review, it was found that reductions in USDH FTEs are possible by doubling up in the programming area and in project monitoring, by eliminating the USDH secretary position, and by placing greater responsibility on FSN staff. However, in order to assure that the portfolio can be continued and effective control and monitoring maintained, the Mission has concluded that a minimum of six USDHs together with the currently projected complement of US PSCs (or equivalent additional USDH positions) and FSNs is required (See Table 5). This minimum USDH staff would be made up of the following:

- Mission Director who is in charge of maintaining the high profile/high level contacts required by the program and providing overall Mission direction;

- Project Development/Program Officer (PDO/PO) who will oversee project/program development and general monitoring, act as the deputy Mission Director and provide back-up in other divisions as required by staff vacancies;

- Executive Officer who in addition to normal executive functions also oversees the Excess Property Program;

- Controller whose function is expected to become more crucial as support from the Costa Rica controller's office is reduced (the incumbent also serves as project officer for two projects related to financial management); and

- Two Project Officers to share supervision/management of the remainder of the Mission's portfolio. They will pick up the activities of a third project officer whose position would be eliminated under the Mission's proposed staffing plan.

Ideally, to provide greater depth to the staff, the third project officer position should be continued. This would offer relief to the other two heavily burdened project officers and PDO/PO and afford better project monitoring and control during vacancies. In addition, with the departure of our US PSC Contracting Specialist in June, 1994, alternative means to cover the Mission's contracting activities will be required. This will have to be accomplished either through much greater backstopping by the Regional Contracting Officer or through a regularly scheduled TDY arrangement from the US.

TABLE 4
USAID/PANAMA
SUMMARY PROGRAM FUNDING TABLE
Dollar Program
(\$000)

Funding Category	FY 94 Estimated	FY 95 Requested	FY 96 Requested	
			75% FY 95	100% FY 95
Development Assistance				
Mission Strategic Objective # 1 Democracy				
525-0000 PDS	92	100	100	100
525-0101 SDA	110	110	110	110
525-0306 Financial Mgt. Reform				500
525-0312 Improved Admin. of Justice			1225	1225
525-0317 Improved Election Admin.	365			
525-0322 PVO Support		1000	1200	1300
525-0324 Municipal Development		1000		500
525-1001 CLASP II	1420	1096	845	1571
Subtotal	1987	3306	3480	4806
Mission Strategic Objective # 2 Economic Growth				
525-0309 Trade & Investment Promotion		500		
525-0313 Economic Policy Reform	1400			
Subtotal	1400	500		
Mission Strategic Objective # 3 Environment				
525-0308 Natural Resources Mgt.	1000	1500	500	500
TOTAL DA	4387	5306	3980	5306

**TABLE 5
USAID/PANAMA
OE FUNDING REQUIREMENTS
(\$000)**

OE/TRUST FUNDED LEVELS By Major Function Code:	FY 94	FY 95		FY 96	
		OE	Trust Fund	OE	Trust Fund
U100 U.S. Direct Hire	164	155		162	
U200 F.N. Direct Hire	163	60		60	
U300 Contract Personnel	1,046	955	100	983	105
U400 Housing	310	263		275	
U500 Office Operations	682	694	20	700	20
U600 NXP Procurement	35	53		50	
Sub-Total Core Costs	2,400	2,180	120	2,230	125
Downsizing Cost: U100					
U200					
U300					
Sub-Total Downsizing Costs					
Total OE/TF Costs	2,400	2,300		2,355	

Mission Staffing Requirements												
	FY 94				FY 95				FY 96			
	USDH	USPSC	FSN	Other	USDH	USPSC	FSN	Other	USDH	USPSC	FSN	Other
Total FTEs or Workyear	9	3.75	59	1	6	2	56	1	6	3	56	1
of which Program funded		3	5	1		2	8	1		3	8	1

"Other" is a USDA PASA

E. Mission Initiated Issues

PRISM - The Agency has invested years working toward a satisfactory program/project management and reporting system. Success and continuity in these efforts have not yet been obtained. The latest approach, PRISM, is still under development and lacks clear definition or agreement on what constitutes the PRISM "system." While the process continues in search of the best system, budget and staff resources are being reduced so that even to do "business as usual" is increasingly difficult. When a system is developed, all indications are that it will place additional demands on a smaller staff.

When will PRISM or its successor be clearly defined and established?
How will this be reconciled with staff size and ability?

Strategic Objectives and Program Outcomes

As was anticipated a year ago, the preparation of this year's Action Plan afforded the Mission the opportunity to re-examine its strategic objectives and related program outcomes and indicators and, as appropriate, adjust them to reflect the current and longer term emphasis of the program. The principal difference identified in this exercise was that with several of the short-term, recovery and reactivation activities associated with the Mission's early program now completed, five Strategic Objectives could no longer be justified.

In this context, the challenge for the Mission was to reduce the number of Strategic Objectives while still providing a clear indication of the over-arching foreign policy nature of the program. The solution was to add a new line at the top of the Objective Tree. As a result the leading point of our program is clearly its foreign policy objective (Successful Implementation of the Canal Treaties) with the remainder of the Mission's projects and programs directed toward achieving that ultimate objective. At the same time, the line from last year's Objective Tree entitled "Mission Program Subgoals" was dropped as its purpose was, indirectly, to tie the program to implementation of the Treaties.

With these changes, the Mission determined that the number of Strategic Objectives could be reduced from five to three. The two democratic initiative objectives in last year's Action Plan have been combined into one because they are now more clearly intertwined and cannot be separated as the Mission program moves forward. Also, a new Strategic Objective has been created (Improved economic policies/business climate) which brings together the previous objectives of Increased and Diversified Exports, and GOP adoption of an apolitical strategy for canal management and use of reverted lands. The activities of the old export objective clearly support the new objective. In addition, a review of our activities under the old Canal objective revealed that they also contribute to improving the business climate because, by assisting the GOP improve its efforts to manage the reverted areas and to prepare for administration of the waterway, a result should be an enhanced investment climate for both domestic and foreign entrepreneurs. Also, by creating a strategic objective focused on the business climate, it became possible to incorporate the Mission's Housing Guaranty program (a Treaty related initiative) more directly rather than showing it as a target of opportunity.

The Mission's third strategic objective, Preservation of Natural Resources, remained unchanged. The following table shows the strategic objectives as now formulated by the Mission in comparison with how they were formulated previously.

FY 94 - FY 96 Strategic Objectives

Competent civilian government institutions and greater citizen participation	Improved economic policies/business climate	Preservation of natural resources
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Strategic Objectives FYs 1991-1993

Strengthened competent civilian government institutions	Increased pluralism and public participation in support of democratic values and processes	Increased and diversified exports	Preservation of natural resources	GOP Adoption of an apolitical strategy for canal mgt and use of reverted lands
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Target of Opportunity: Low cost housing

Once the revised strategic objectives were established, the Mission reviewed their corresponding indicators as well as the anticipated program outcomes and related indicators. Based on that review, the number of objective-level indicators was reduced from 10 to six, and the number of program outcomes were reduced from 14 to 12 while the related indicators were cut from 30 to 26. The number of items to monitor and report on will decline again at the end of 1994 as actions are completed. After 1994, the program will be down to 11 program outcomes with 21 indicators. The tables which accompany the narrative for each of the strategic objectives provide a description of these program outcomes and indicators, including the baseline that has been established for the purpose of tracking progress over the planning period. Unless otherwise noted, all values are "actual."

In keeping with the evolving nature of the strategic objective framework, the Mission views these program outcomes and indicators as subject to change. At present, they represent the Mission's best thinking as to how to communicate impact and progress. We recognize, however, that better indicators may be identified and are prepared to make necessary adjustments if such a situation arises.