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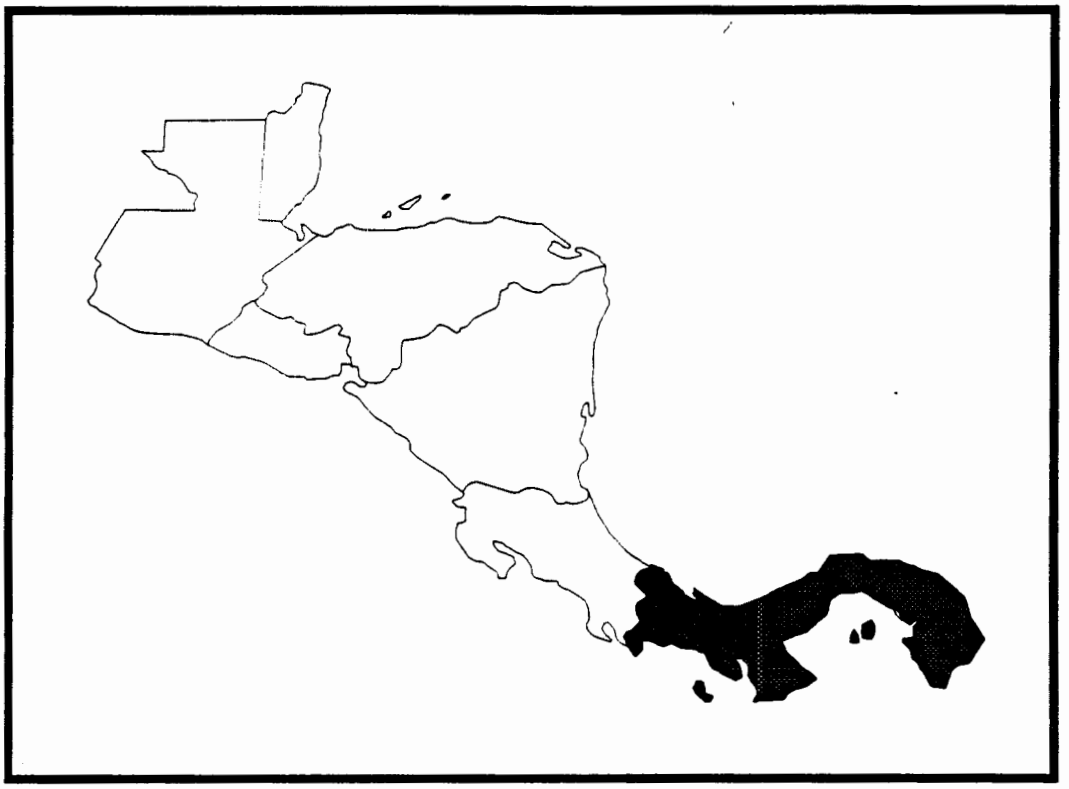
PANAMA ACTION PLAN

1996 - 1997



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FOREIGN POLICY OBJECTIVE

SUCCESSFUL IMPLEMENTATION OF THE CANAL TREATIES

MISSION GOAL

DEMOCRATIC SUSTAINABLE DEVELOPMENT

AGENCY GOALS

To Build Democracy

To Preserve Natural Resources

MISSION STRATEGIC OBJECTIVES

To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation

To Protect the Canal Watershed and Other Natural Resources

PROGRAM OUTCOMES

Implementation of Transition Plan for transfer of Panama Canal operations

Improved planning for use of reverted areas

Improved public sector financial management and accountability

Institutionalized fair and expeditious criminal justice process

Increased civic participation in the democratic system

Improved management and protection of Canal Watershed and national parks

TARGETS OF OPPORTUNITY

Trade and Investment

Low-cost Housing

Reduced population pressure on the Canal Watershed

I. STRATEGY OVERVIEW

Introduction:

As indicated in last year's Action Plan, the principal justification for the USAID/PANAMA program remains as it was when USAID activities resumed in early 1990: to support U.S. foreign policy objectives with respect to successful implementation of the U.S./Panama Canal treaties. Under the treaties, Panama is to assume full ownership, control and operation of the Canal on December 31, 1999. In the interim, the U.S. has begun transferring extensive U.S. military bases and Canal operating areas to Panamanian control.

Panamanian civilian government institutions are still recovering from twenty years of Panamanian military rule which culminated in the chaos, corruption and human rights abuses of the Noriega dictatorship of the 1980's. Immediately following U.S. military intervention in December 1989, the newly reactivated USAID/Panama program provided more than $450 million to help reestablish Panamanian democracy, financial management and the rule of law, and to support Panama's economic stabilization and recovery. With the free and fair national elections of 1994, the successful transfer of power to a newly elected President, national assembly, mayors and municipal representatives; and with continued free market economic expansion and movement toward more open international trade, the initial process of recovery is nearing completion.

Given resources available from the Inter-American Development Bank and other donors, the USAID/Panama program in FY 96/97 will no longer target Broad Based Economic Growth as a Specific Objective. We will, however, continue in a modest way to facilitate Panama's efforts to dismantle trade barriers as well as its efforts to encourage private investment. This will support Panama in its development of the requisites for accession to the Free Trade Area of the Americas announced at the Summit of the Americas in Miami, and to the World Trade Organization.

Under the Mission's Democracy/Governance Strategic Objective, we will consolidate and extend gains made over the past five years. The USAID/Panama program in FY 96 and FY 97 will continue to target technical assistance and training to strengthen selected Panamanian institutions which are vital to establishing longer term political and economic stability. That stability is critical to strengthening confidence in Panama's ability to operate and maintain the Panama Canal and associated territories in the year 2000 and beyond. Also critical is competent Panamanian management specific to the transfer of responsibility for Canal operations as well as Panamanian planning for maintenance and use of an estimated $30 billion worth of infrastructure and real estate involved in the transfer of U.S. military bases and Canal properties to Panamanian control.

An additional external factor threatens long term operation of the Panama Canal. Deforestation linked to unchecked population growth within the Canal Watershed has already devastated large areas throughout the western reaches of the Watershed. Population growth as well as new road construction have begun to threaten the eastern slopes as well. If environmental destruction continues unabated, it could eventually result in irreversible damage to the ecosystems upon which Canal hydrology depends. USAID/Panama, in partnership with the Government of Panama and Panamanian and U.S. private voluntary organizations, identifies environmental protection of the Canal Watershed and national parks as the Mission's second Strategic Objective.

Nationwide, Panama's virgin forests may be affected by some of the thirty new mining concessions the GOP has granted for extraction of copper, manganese, gold, and other precious metals. Labor-intensive, open-pit copper mines could pose a particular problem. The broad scope of these concessions place their impact outside the range of USAID/Panama's manageable interest. We have asked the regional mission in Guatemala to use RENARM Project resources to monitor and address this issue.

The Smithsonian Institution has extensive tropical forest and coral reef research operations in the Canal Watershed and in adjacent areas. Smithsonian participation already contributes to USAID and Panamanian efforts to check deforestation. In cooperation with the Smithsonian, USAID/Panama proposes support for coral reef protection through USAID Global or regional sources of funds during FY 1995 and FY 1996.

Managing For Results:

Agency core values emphasize managing for results, teamwork, empowerment, accountability and customer focus. USAID/Panama applies these values to the project committee system which designs and implements the total project portfolio in collaboration with Panamanian counterparts and U.S. PVO's.

The Mission emphasizes an additional value - flexibility, in identifying and resolving problems. Flexibility enables project committees to make continual adaptations in approaches to project implementation. At the same time, committees are held accountable for achieving progress toward strategic objectives.

An example of this lies in the design and implementation of USAID's Improved Election Project, which made a vital contribution to Panama's May 1994 national elections.

Although not all the impediments and constraints within Panama's election system were known at project inception, the USAID project committee established effective working relationships with key counterparts and independent observers which enabled the Mission to identify and solve problems as they became evident.

Original project planning envisioned joint activities with all of the country's political parties. However, the Mission soon realized this approach would be unworkable. USAID enlisted a U.S. PVO which had independent financing to assist with these activities.

Midway through project implementation, the Mission realized that Panama's National Voter Registry was in much worse condition than originally estimated. GOP resources were insufficient to correct this. The project committee reorganized the project budget and amended another USAID project to ensure that sufficient resources were applied to the problem. As a result, 94% of eligible voters registered to vote.

Just before the election, the GOP Electoral Tribunal identified the need for mobile telephones and other equipment to improve monitoring and coordination. The project committee employed USAID procurement procedures to purchase the commodities directly, saving time and ensuring the equipment was available when needed.

The CLASP-II training project incorporates the same values listed above. USAID works with community leaders to establish provincial training committees composed of volunteers from the private and public sectors within each province.

Committees recruit from lower income groups and among indigenous populations for each of the project's training programs. They select the most promising candidates from among those who apply, with special emphasis on women.

Committees also diagnose provincial development needs for which new training programs would be helpful.

Although staff-intensive, the volunteer nature of the committees keeps administrative costs and overhead to a minimum. It also strengthens grass-roots organizations which can play a role in a broad range of development activities. Provincial training committees are collaborating with USAID in design of the Mission's Municipal Development Project.

Returned training participants have established a formal organization of Thomas Jefferson Fellows. This alumni association has achieved legal status in Panama. The association elects its own officers, meets regularly and consults with USAID on program design and implementation across sectors.

The Mission seeks ways to "leverage" the resources of Panamanian partners, by utilizing linkages to regional sources of technical expertise. For example, a Panamanian commercial bank asked USAID for help in setting up a lending window for micro and small enterprises. The Mission used project development and support funding to contract with an NGO from the Dominican Republic to provide technical assistance. As a result, a USAID investment of $47,000 helped

establish a private sector lending mechanism that, to date, has provided 4,450 loans (totalling $9.5 million) to small enterprises.

Staying close to the "customer" in Panama includes communicating with U.S. and Panamanian Chambers of Commerce representing large and small investors in Panama. USAID worked with the Panamanian Chamber of Commerce to assist the Government of Panama in drafting and passing legislation to encourage private investment in tourism. Results of that legislation include new investment, including new hotel construction. The Mission worked with the Ministry of Commerce and Industry to set up "one-stop shop" procedures to facilitate licensing of new businesses in Panama.

Panama's Assistance Requirements:

As requested in State 044878, paragraph 1(B), USAID/Panama has reviewed Panama's need for assistance.

Soon after USAID's return to Panama in 1990, it was determined that USAID assistance could make a significant contribution to implementation of the US/Panama Canal Treaties in the transfer to full GOP control and operation of the Canal and reverted areas in the year 2000. Because of the importance of this transition to U.S. objectives, it provides the fundamental justification for the Mission program. USAID/Panama is the only Latin American mission whose program is justified on foreign policy grounds.

Since our program is tied to the implementation of the Canal treaties, the issue of continuing USAID programs beyond 1999 was raised with USAID/W in conjunction with last year's Action Plan. At that time, Washington reaffirmed a continuing role for USAID in assisting GOP institutions involved in managing the Canal transition process and management of the reverted areas. Final resolution of the issue of post 1999 assistance was left for later consideration. In accordance with State 044878, the Mission has reexamined Panama's assistance requirements.

Assuming continuation of Panama's economic and political recovery, strengthened by successful implementation of USAID programs discussed in this Action Plan, the Mission believes no USAID presence in Panama will be required beyond December 31, 1999.

II. PERFORMANCE REPORT

Table 1: Strategic Objective Program Tree

Panama

Agency Goal: To Build Democracy

STRATEGIC OBJECTIVE NO. 1: To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation

PROGRAM OUTCOME NO. 1 Implementation of Transition Plan for transfer of Panama Canal operations	PROGRAM OUTCOME NO. 2 Improved planning for use of reverted areas	PROGRAM OUTCOME NO. 3 Institutionalized fair and expeditious criminal justice process	PROGRAM OUTCOME NO. 4 Improved public sector financial management and accountability	PROGRAM OUTCOME NO. 5 Civic participation in the democratic system
525-0313 Economic Policy Development	525-0313 Economic Policy Development	525-0312 Improved Admin. of Justice	525-0306 Financial Management Reform	525-0101 Selected Devel. Activities
			525-0314 Tax Admin. Reform	525-0322 PVO Support
				525-0324 Municipal Development
				525-1001 CLASP II
				Humanitarian Assistance/ Excess Property Program

Table 2: STRATEGIC OBJECTIVE PERFORMANCE

Panama

STRATEGIC OBJECTIVE NO. 1: To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation

Indicator 1: Administrative structures established for Canal/reverted areas

Unit: Laws and Regulations - yes/no		Year	Planned	Actual
Source: GOP Gazette	Baseline	1993	ARI ACP 1st approval*	yes yes
Comments: The GOP set up the Inter-Oceanic Regional Authority (ARI) to manage real property not essential to Canal operations. A constitutional change approved by two sessions of the National Assembly was necessary to establish the Panama Canal Authority (ACP) to operate the Canal. *First approval was voted in 1993. **Second approval was voted by a new assembly in December 1994. The GOP is giving priority to legislation/regulations for these entities		1994	ACP 2nd approval**	yes
		1995	Draft Regulations	
	Target	1996	Implementation Regulations	

Indicator 2: Increased resources for justice sector

Unit: $ millions		Year	Planned	Actual
Source: GOP Gazette	Baseline	1991	----	26.8
Comments: Panama's Constitution mandates 2% minimum of central government budget % of budget 1991 1.7% 1992 2.7% 1993 2.7% 1994 2.5% 1995 2.7% (projected)		1992	37.4	39.7
		1993	47.4	49.4
		1994	47.5	48.2
		1995	50.2	(51.2)
		1996	55.0	
	Target	1997	56.0	

Indicator 3: Time to render court decisions in criminal cases				
Unit: % of cases processed within 1 year		Year	Planned	Actual
Source: Statistics and Census Bureau, Controller General's Office	Baseline	1990	----	40.0%
Comments: Numbers of cases processed: 1991 7,400 1992 8,438 1993 10,537 1994 figures are not yet available.		1991	45.0%	55.5%
		1992	50.0%	58.5%
		1993	55.0%	57.6%
		1994	58.0%	----
		1995	60.0%	
		1996	62.0%	
		1997	64.0%	
		1998	66.0%	
	Target	1999	68.0%	

Indicator 4: Public sector entities submitting annual financial statements, in accordance with GOP guidelines in time for incorporation into the Controller General's year-end report				
Unit: % of entities		Year	Planned	Actual
Source: Controller General's year-end report	Baseline	1990	----	0
Comments: Reliable and timely financial reporting, as reflected in institutional financial statements, is essential to establishing an audit baseline, and in holding public officials accountable for the resources they manage.		1994	25%	30%
		1995	42%	
		1996	64%	
		1997	77%	
	Target	1998	100%	

STRATEGIC OBJECTIVE NO. 1: To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation				
PROGRAM OUTCOME NO. 1.1: Implementation of Transition Plan for transfer of Panama Canal operations				
Indicator 1: Transfer plans followed and targets met on schedule - yes/no				
Unit: GOP and Project reports		Year	Planned	Actual
Source: GOP reports/direct observation	Baseline	1994	- transition plan developed - Phase I - legal/ planning completed	yes
Comments: GOP adopted a USAID financed transition plan in 1994 which outlines 4 main phases of the transition. The GOP will continue to refine the plan. Further explanation is in the main text.		1995	transition commission named	yes
		1996	- Phase II - policy & strategy set	
		1997	work on organization and administration underway	
		1998	- Phase III - organizational work completed	
	Target	1999	- Phase IV - administrative structure completed	

The GOP strategy for assuming responsibility for operation of the Canal and administration of the Canal's surrounding land and U.S. military bases depends on two new GOP institutions. The Panama Canal Authority (ACP) discussed under Program Outcome No. 1.1 will be responsible for implementing the transfer of responsibility for Canal operations to the GOP. The Inter-Oceanic Regional Authority (ARI) discussed in Program Outcome No. 1.2 is responsible for administering those reverted areas (including military bases) not essential to Canal operations. The GOP is still reviewing this strategy, particularly with regard to ARI, and may modify it in the future. USAID encouraged the formation of the two institutions and provided assistance for their development. We will continue to provide assistance to the GOP on a demand basis in support of both the reversion process and implementation of the transition plan.

In 1994, the new National Assembly passed a constitutional amendment creating the autonomous ACP which will be responsible for operating the Canal. Implementing legislation that allows the ACP to become

operational remains to be approved but is expected to be considered in the Spring of 1995. The Mission financed preparation of a transition plan for the transfer of Canal operations which analyzed the four phases of transition shown on the following table. USAID also assisted in an initial draft of implementing legislation to enable the ACP to become operational. In accordance with recommendations of the transition plan, the GOP recently appointed a Transition Commission to manage the canal transfer process until the ACP becomes operational. The Commission must review the transition plan with the Panama Canal Commission and others and prepare a revised plan.

TRANSITION PHASES				
Phase	Principal Objectives and Considerations	Responsibility	Start Date	End Date
I	Legal & Planning	President/ Natl. Assembly/ Pres. Commission	1993	September 1994
II	Policy & Strategy	Transition Commission	1994	End of 1996
III	Organizational	ACP Board of Directors	1996	End of 1998
IV	Administrative	ACP/PCC (Panama Canal Commission)	1996	Mid 1999

The Transition Plan contains a check list of tasks that must be completed within each phase. These tasks are the responsibility of the new GOP administration which will be in office until August 31, 1999. In less than five years Panama must be capable of operating the Canal efficiently. USAID/Panama will continue to assist the transition process as requested by the GOP and as USAID's resources permit. A copy of the Transition Plan's executive summary and the check list are contained in Annex D.

PROGRAM OUTCOME NO. 1.2: Improved planning for use of reverted areas				
Indicator 1: Reversion of U.S. military properties				
Unit: properties reverted/in use as planned		Year	Planned	Actual
Source: GOP and U.S. military reports	Baseline	1990	0	0
Comments: Schedule and procedures for reversion of facilities, and base areas/ranges is the responsibility of U.S. military in coordination with the GOP. Reversion schedule is subject to change. USAID can provide assistance, when requested by the GOP, to facilitate GOP preparations to accept and use reverted properties, but USAID is not in a position to influence the schedule of reversions. Only those reversions where USAID is currently expected to have some influence are listed. Additional reversions may be identified as the reversion process continues. See below for description of properties.		1994	- Coco Solo reverted - Ft. Amador Specs.	yes
		1995	- Albrook feasibility	
		1996	Ft. Amador reverted (tourist center)	
		1997	- Albrook reverted - Gorgas feasibility	
		1998	- Gorgas reverted - others TBD	
	Target	1999	TBD	

ARI was established in 1993 to manage and develop those reverted areas that are not necessary to Canal operations. ARI has begun to function. It has successfully transferred one major U.S. facility (Coco Solo) to Panamanian hands. The new Panamanian government has just passed legislation which will give the executive branch more control over ARI personnel and major decisions and which will result in a change in its leadership. We have yet to see the practical impact of these changes. USAID provided ARI with technical assistance in 1994 to prepare specifications for a land use and development plan of Fort Amador. Effective use of that property is vital, given the property's great value and high visibility. USAID also procured geographic information system (GIS) equipment and training in 1994 to support ARI management and control of the reverted areas.

The following is an illustrative list of properties and a tentative schedule for reversion: (* indicates properties for which USAID will provide direct assistance for planning and transfer).

1994 *Coco Solo - 200 bed hospital/clinic

1995 Cristobal School - 74 rooms
Ft. Davis - 4,075 acres, over 400 buildings
Ft. Espinar - 344 acres, 340 buildings

1996 Curundu School - 98 rooms
Curundu Flats - 183 acres, 120 buildings
*Ft. Amador - 208 acres, 200 buildings

1997 Diablo School - 38 rooms
*Albrook Station - 769 acres, 500 buildings

1998-1999
*Gorgas Hospital - 384,000 square feet
Quarry Heights - 77 acres, 90 buildings
Corozal - 300 acres, 60 buildings
Ft. Clayton - 2,000 acres, over 1,400 buildings
Ft. Kobbe - 9,196 acres, 270 buildings
Cocoli - 146 acres, 162 buildings
Ft. Sherman - 23,000 acres, 75 buildings
Balboa School - 32 acres, 115 rooms
Howard - 5,200 acres, over 700 buildings
Farfan - 814 acres, 100 buildings
Rodman - 600 acres, 100 buildings
Marine Barracks - 280 acres, 30 buildings

PROGRAM OUTCOME NO. 1.3: Institutionalized fair and expeditious criminal justice process

Indicator 1: Announced judicial career positions to be competitively filled

Unit: # of announced positions to be filled competitively - this includes new positions, vacancies, and appointments already in place but subject to scheduled competitive selection		Year	Planned	Actual
Source: Court and Public Ministry reports	Baseline	1990	----	0
Comments: Mission has modified indicator and targets based on IG and GAO recommendations to clarify the distinction between positions subject to selective competition and those actually filled in accordance with judicial career regulations. Career regulations for the Judicial Branch were issued in November 1991. Figures for 1992-1994 are for the court system. The Public Ministry is expected to issue its career regulations in May 1995. Prior to 1995, no annual targets were set by the GOP. Targets for 1995 and subsequent years are for both the Judicial Branch and the Public Ministry. (See narrative below for discussion on gender)		1992	----	129
		1993	----	166
		1994	----	241
		1995	350	
		1996	450	
		1997	500	
	Target	1998	600	

Indicator 2: Public confidence in the impartiality of Panamanian justice

Unit: % of public polled		Year	Planned	Actual
Source: Sample Surveys	Baseline	1994	----	70%*
Comments: Performance will be measured through sample surveys. Panama and Costa Rica both have private firms capable of such surveys at reasonable cost. *Figure is from a USIA poll conducted in September 1994.		1995	75	
		1996	80	
		1997	85	
		1998	90	
	Target	1999	95	

Of those positions that were filled on a competitive basis, as shown in Indicator 1, women were appointed to 47.4% in 1992, 47.5% in 1993 and 47.9% in 1994. USAID anticipates that women will be appointed to 48.5% of the positions in 1995 and 50% each year thereafter. The Mission will continue to monitor progress in its SARs and Action Plans and to work towards achieving the 50% level.

Indicator 3: Public confidence in the court system overall				
Unit: % of public polled		Year	Planned	Actual
Source: Sample Surveys	Baseline	1994	----	46%
Comments: Baseline data is derived from a USIA survey. Confidence in the legal system was one of several questions which also included due process, impartiality of courts, and confidence in the policy. Figure reported here was percentage with a "great deal/fair amount" of confidence. Future data will be drawn from all available sources, including USAID polling as necessary.		1995	48%	
		1996	50%	
		1997	52%	
		1998	54%	
	Target	1999	56%	

* Panama's constitution stipulates that, at a minimum, 2% of the central government's budget be allocated to the justice sector. The GOP did not observe this requirement before 1990. Since 1990, with USAID encouragement, the GOP has allocated more than 2% each year.

* Before 1990, the GOP filled positions in the Public Ministry and the Judicial Branch using subjective criteria. It placed unqualified individuals in the system and it provided little or no in-service training. In 1992, with USAID assistance, the Judicial Branch initiated a system of competitive selection for filling court vacancies. The Public Ministry will soon adopt a similar selection system.

* The Administration of Justice (AOJ) Project provides in-service training which, since 1992, has enabled the Judicial School to conduct 106 training sessions for 3,425 justice officials at all levels. Evaluations measure training progress and guide the selection of participants.

* Better funding, competitive selection, and systematic training are changing the justice system. In the past, officials were not held accountable for the cases they handled. There was no system for the management or tracking of cases. At the end of 1994 those courts that handle 77% of Panama's criminal case load began to use a new standardized case tracking and statistical control system developed with USAID assistance. By March, 1996, the system will cover the country.

* The objective of increased efficiency of case disposition is difficult to measure in the short-term. However we can show improvement since 1991. Although the total case load for the courts increased, the percentage of cases processed within

legally prescribed deadlines increased also. This shows that the system has developed additional capacity and greater efficiency. From 1991 - 1993 the total number of cases increased 37% (from 13,341 to 18,282). For the same period the percentage of cases resolved on time improved from 55.5% to 57.6%.

* The principal investigative arm of the courts, the Technical Judicial Police, is now better integrated into the judicial process. This resulted from a joint effort by the U.S. Department of Justice International Criminal Investigative Training Assistance Program (ICITAP), which supports the Police, and USAID's AOJ Project which supports participation by prosecutors from the Public Ministry. Now, investigators and prosecutors meet daily to review cases and to ensure they conform to legal requirements. This has improved efficiency by reducing the number of cases which must be returned to correct errors or which must be dismissed.

* The justice system entity responsible for preliminary investigations, the "Fiscalia Auxiliar," has been a major source of delay and a source of corruption. USAID is providing training and operation manuals to facilitate its reorganization.

PROGRAM OUTCOME NO. 1.4: Improved public sector financial management and accountability

Indicator 1: Public sector entities implementing the "Manual of Government Accounting" developed with USAID assistance

Unit: % of entities		Year	Planned	Actual
Source: Controller Generals report on the state of public finances	Baseline	1990	----	0
Comments: A standardized, uniformly applied accounting system is essential to achieving an integrated financial management system, and contributes to accountability by providing a more accurate means of measuring and monitoring institutional management performance.		1993	1%	3%
		1994	30%	34%
		1995	50%	
		1996	66%	
		1997	82%	
	Target	1998	100%	

Indicator 2: Public sector entities using GOP budget manuals developed with USAID assistance

Unit: % of entities		Year	Planned	Actual
Source: Ministry of Planning and Controller General reports	Baseline	1990	----	0
Comments: A standardized budget system is essential to integration of financial management systems, and is a critical tool in management. The National Budget Office is following up to ensure that the budget system is effectively implemented.		1994	25%	25%
		1995	50%	
		1996	75%	
	Target	1997	100%	

Indicator 3: Public entities with internal audit units following standards developed with USAID assistance

Unit: % of entities		Year	Planned	Actual
Source: Controller General's records of reviews and evaluations of internal audit units	Baseline	1990	----	0
Comments: Standard internal audits can greatly improve financial management. This indicator requires on-site verification with a prepared checklist to assess the effectiveness of the audit unit, and review of reports issued and documented follow-up.		1995	15%	
		1996	35%	
		1997	60%	
		1998	85%	
	Target	1999	100%	

The following achievements were accomplished under this Program Outcome over the past year:

* The Financial Management Reform Project (525-0306) supported an intensive government-wide implementation of a new accounting plan based on a manual developed under the Project and introduced in 1993.

* Fifty three GOP entities (34% of total GOP) began submitting quarterly financial statements to help the government monitor and control its resources.

* Year-end 1994 statements prepared under new accounting principles and standards are now being received from central government and decentralized agencies for consolidation and publication in the Controller General's annual report.

* For a second straight year, the programming and formulation of the annual (1995) budget followed the standards of the manual developed by the Project. With standardized information the GOP is better able to allocate scarce resources among competing needs.

* The GOP is evaluating 1994 budget performance using a manual developed by USAID for this purpose.

* The GOP is using new public debt management software which USAID provided.

* The USAID Project designed a government-wide plan to strengthen internal audit units. The GOP put it in operation in seven key pilot institutions.

* The Project supported the organizational development of the GOP's general audit department, while continuing to draft audit standards and procedures.

* The Project provided 53 training courses for 1,460 Panamanians, bringing the Project's total training figures to 8,334 participants through 246 courses. Subjects included budgeting, accounting, public debt, audit and government ethics.

* To promote modernization of curricula in financial management and audit at the college level, the Project financed four courses for 120 faculty members at Panama's major universities.

PROGRAM OUTCOME NO. 1.5 Increased civic participation in the democratic system

Indicator 1: User satisfaction with municipal services

Unit: % increase in satisfaction		Year	Planned	Actual
Source: Sample Surveys	Baseline	199X	----	
Comments: Project being designed. Targets will be set and performance measured through sample surveys.		1995		
		1996		
		1997		
		1998		
	Target	1999		

Indicator 2: Increased collection of revenues by municipalities

Unit: % of available revenues		Year	Planned	Actual
Source: Municipal records, USAID analysis	Baseline	1992	----	60%
Comments: "Available" refers to all revenues which the law authorizes municipalities to collect. *Target is based on assumption that all new municipal development project activity will be sufficiently advanced during FY 95 to produce measurable change.		1995	70%*	
		1996	75%	
		1997	80%	
		1998	85%	
	Target	1999	90%	

Indicator 3: U.S. trained participants currently employed

Unit: % Participants employed post training		Year	Planned	Actual
Source: Project record, and Provincial Committees	Baseline	1990 to 1994	----	92%
Comments: Baseline is 308 participants (37% female) returned 1990-1994. 92% are currently employed. Provincial committees will help with employment search. Targets are ambitious but reachable.		1995	92%	
		1996	93%	
		1997	94%	
		1998	95%	
	Target	1999	95%	

As a result of the May 1994 national elections, the Electoral Tribunal, USAID's counterpart under the Improved Elections Project, gained the confidence of two-thirds of Panama's people. This was the highest confidence rating given to any public entity. Project assistance led to the following results:

* 18 parties were registered and active in the political process. In May 1993, these parties signed an Ethical Electoral Commitment sponsored by the private Peace and Justice Commission, an influential local NGO.

* 1,499,451 Panamanians (94% of the eligible population) were registered to vote.

* Valid votes cast in the May elections totaled 1,066,844 for a participation level of 71% of registered voters.

* All international observers agreed that the May elections were free and fair and a model for the region.

Participation with local groups is an important part of USAID/Panama's portfolio of projects and programs. The Special Development Activities (SDA) Project promotes community involvement through self-help activities. USAID funds the costs of materials.

* Community members identify the problem to be addressed, devise a solution, and gather sufficient resources to finance at least 50% of the cost (usually labor and local materials). When appropriate, the community is also responsible for collecting user fees to cover maintenance costs.

* Since 1990, SDA has assisted 20,000 members of poor rural communities in their construction of health and education facilities, foot-bridges, and water systems.

Since 1991, the Humanitarian Assistance-Excess Property Program has provided about $26.6 million worth of property (valued at the original acquisition cost) to government entities and NGOs which serve the needs of Panama's economically, physically, or socially disadvantaged people.

* Commodities and equipment originate from the U.S. military and the Panama Canal Commission. Items range from vehicles and heavy construction equipment to school desks, food stuffs, and medical supplies.

* The Program has benefitted 760 schools, health facilities and other government institutions and 262 orphanages, homes for the blind or disabled, drug treatment centers and other NGOs. Current projections are for $4-$5 million in property to be distributed in 1995.

Under the CLASP II Project, the Mission encourages direct community participation through ten volunteer provincial committees.

* Since 1993, 50 community volunteers have served as core committee members. Volunteer committees identify training priorities based on community needs and help in the selection process of potential scholarship recipients under CLASP.

* Committee members have donated over 9,000 hours of their time for needs assessments, training and grass roots development projects.

USAID/Panama will expand local participation and empowerment to communities through two new projects - Municipal Development and PVO Support. These will emphasize grass-roots development based on local participation.

* Panama's newly elected mayors and council members have little or no administrative experience. Under the Municipal Development Project, USAID will work with local leaders and with the newly established National Association of Municipalities to develop a system of community-based democratic institutions responsive to citizen concerns.

* Project activities will include reforms to the municipal legal framework, extension of municipal services, improved municipal administration, and strengthened municipal financial management and credit worthiness. Work with NGOs will improve civic education and participation in the democratic process. Public legal education will emphasize the rights of women and children and other disadvantaged groups.

* The PVO Support Project will strengthen the administration of local NGOs and target the most disadvantaged members of Panama's society. This project will complement the Municipal Development Project by focusing on many of the same municipalities.

Strategic Objective No. 2 has been revised since last year in response to audit recommendations and the LAC Bureau's recommendations to focus efforts in the environmental area.

Table 1: Strategic Objective Program Tree

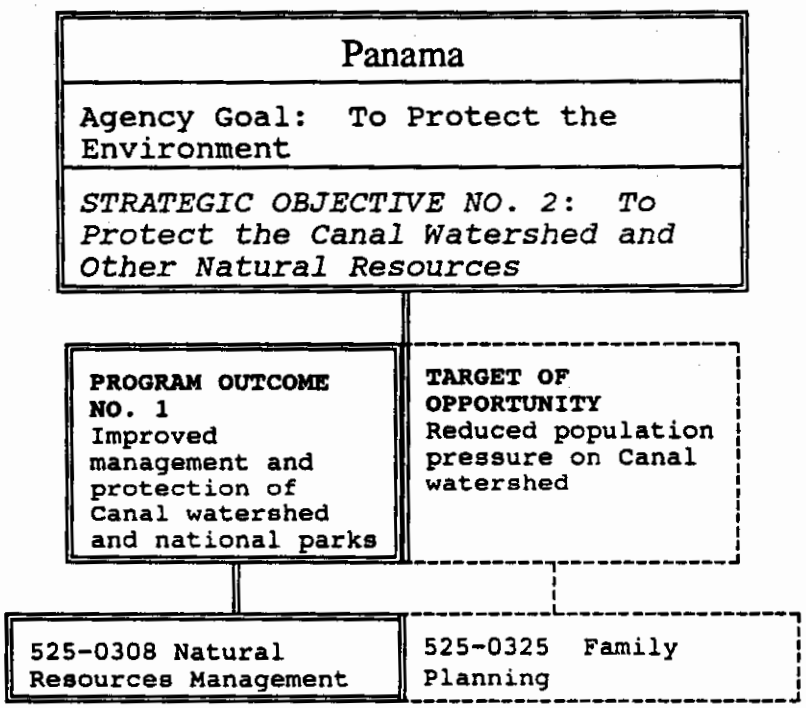


Table 2: STRATEGIC OBJECTIVE PERFORMANCE

STRATEGIC OBJECTIVE NO. 2 - To Protect the Canal Watershed and Other Natural Resources

Indicator 1: Reduced rate of deforestation in the Canal watershed and key national parks*

Unit: % reduction in hectares deforested annually		Year	Planned	Actual
Source: GOP-GIS Center, GOP and NGO reports	Baseline	1990	----	TBD
Comment: The GIS (geographic information system) center began operations in 1994. By April, 1995, a baseline rate will be established using LANDSAT imagery (1986-1992). Current year data will be available by the end of 1995. LANDSAT updates will be available in 1998. Deforestation rate will be based on GIS information, monitoring, and reforestation records. These are preliminary estimates of reductions that will be adjusted once baselines are established. *Excludes deforestation caused by the planned Panama City-Colon highway.		1995	database estab-lished	
		1996	-15%	
		1997	-40%	
		1998	-80% database update	
	Target	1999	-90%	

PROGRAM OUTCOME INDICATORS

PROGRAM OUTCOME NO. 2.1: Improved management and protection of Canal Watershed and national parks

Indicator 1: All existing waterways and forested areas in Canal Watershed declared legally protected areas

Unit: hectares (cumulative)		Year	Planned	Actual
Source: GOP reports	Baseline	1991	156,000	156,000
Comments: The entire Canal watershed covers approx. 320,000 ha. This 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) 160,000 ha. of forested areas are currently protected within 5 national parks. 2) 45,000 ha. of reservoirs and waterways declared protected in 1993 3) Up to 40,000 ha. to be included in the new National Las Americas Interoceanic Park. Final demarcation of the park is under discussion - Total of 1) to 3) adds to target of 245,000 ha.		1992	156,000	160,000
		1993	205,000	205,000
		1994	205,000	205,000
		1995	205,000	
		1996	245,000	
		1997	245,000	
	Target	1998	245,000	

Indicator 2: Surveillance of national parks

Unit: # forest ranger patrols conducted each year		Year	Planned	Actual
Source: GOP, NGO and project reports	Baseline	1994	0 - New Activity	4,010
Comments: Delay in establishment of the Trust Fund and heavy turnover of GOP counterparts have constrained efforts to increase GOP presence in national parks. USAID and GOP will now focus on this presence using the number of patrols as an indicator. Random checks of patrols to be made by NGOs and GOP. Patrols are made up of 2-3 people, either motorized or on foot, who will inspect the park boundaries and key high-use areas. On average each patrol lasts 2-4 hours.		1995	4,200	
		1996	4,500	
		1997	4,800	
		1998	5,200	
	Target	1999	5,600	

Indicator 3: Enforcement of regulations in national parks				
Unit: # citations issued and/or hunting weapons and game confiscated, per year		Year	Planned	Actual
Source: GOP and project reports	Baseline	1994	----	190
Comments: Increase through 1997 is a function of increased patrols (indicator 2 above). Expect a leveling and/or decline in violations in 1998 and 1999 as potential offenders become aware of increased enforcement. The citations counted here are only those issued in connection with park protection. The citations are issued for such things as illegal wood cutting and park incursion to plant crops.		1995	210	
		1996	230	
		1997	245	
		1998	240	
	Target	1999	230	

Indicator 4: Trust fund disbursing to NGO's, community associations, education groups, and GOP entities for conservation/environmental activities				
Unit: $ (000)		Year	Planned	Actual
Source: Audits, NGO reports	Baseline	1994	0 - New Activity	----
Comment: NATURA (a local NGO) was established in 1992 to administer the endowment. Trust fund established February, 1995, with first disbursement expected August, 1995		1995	400	
		1996	1,000	
		1997	1,200	
		1998	1,300	
	Target	1999	1,400	

Indicator 5: Land area in key watersheds reforested with funds from the Environmental Trust				
Unit: hectares planted per year		Year	Planned	Actual
Source: Audits, NGO reports	Baseline	1995	0 - New Activity	----
		1996	500	
		1997	1,500	
		1998	2,000	
	Target	TOTAL	4,000	

Two factors have delayed progress under this Strategic Objective:

* First, a key component of the Natural Resources Management Project (525-0308), an environmental trust fund, took longer to establish than planned. Other project components depended on financial support from the fund so implementation was slowed until the fund was established. As a result, this project became the only one in USAID's portfolio to fall in the "C" performance category described in State 044878, paragraph 3(C).

* Second, the Institute for Renewable Natural Resources (INRENARE), our principal GOP counterpart, has had five directors in as many years, resulting in little leadership and frequent mid-course changes. Partially as a result, INRENARE has not placed sufficient staff in the field where they are most needed.

Project implementation will accelerate now that USAID, the GOP, and a U.S. PVO have established the Environmental Trust Fund. Specifics on the trust fund follow:

* On February 15, 1995, USAID signed an agreement with the GOP and a U.S. PVO to establish the Fund. The agreement provides a Trust Fund of $25 million, which includes contributions of $15 million from GOP-owned reflows from a prior USAID project as well as a direct USAID contribution of $8 million from funds obligated for this purpose in FY 1991. The U.S. PVO (The Nature Conservancy) contributed $2 million.

* Proceeds from the Fund will provide long-term support for conservation and other environmental activities of private NGOs and community groups and selected GOP entities:

  - Half of the funds will support GOP surveillance and management activities and help maintain infrastructure established under the Natural Resources Management Project.

  - The remaining funds will support NGOs, community associations and educational entities.

  - Once mature, the Trust is expected to fund $1,500,000 a year through grants to NGOs and GOP entities.

  - Responsibility for distribution of the Trust's proceeds resides with NATURA, an NGO established for this purpose. NATURA's Board of Directors is being changed to include a WID oriented NGO and statistics will be gender disaggregated to the extent applicable. USAID-sourced funds will be limited to distribution to NGOs.

* We understand this is one of the first such trust funds worldwide established under the recent revisions to the U.S. Foreign Assistance Act.

Project implementation will focus on the Panama Canal Watershed. Emphasis will be given to increasing the presence of INRENARE staff/rangers in the parks. The Canal is dependent on an abundant and continuous source of fresh water for its operations.

* Every ship that passes through the locks consumes 52 million gallons of fresh water. At capacity (approximately 40 ship transits a day) Canal operations consume over 2 billion gallons of fresh water. In addition, 1,000,000 people depend upon the Canal lakes for potable water.

* Deforestation poses a threat to the water supply and the future operation of the Canal, particularly during the dry season when the canal must rely on stored water. Deforestation increases the levels of silt that flow into the lakes. This decreases storage capacity. With deforestation, water runoff also increases and less water is retained for future use.

* Despite the fact that most of the Watershed is legally protected, deforestation continues, principally due to actions by the 159,000 inhabitants of the watershed. USAID is providing remote sensing technology to the GOP to assess rates of deforestation.

At the national level, deforestation is spreading at a rate of 57,000 hectares a year. At this rate, forest cover will be reduced to under 30% of Panama's land area by the year 2000. (Forest cover was estimated at 70% as recently as 1947.) Deforestation is a threat to both biodiversity and tourism.

* Panama is exceptionally rich in biodiversity. According to the Holdridge ecosystem classification system, there are 12 life zones in the isthmus, each with their sub-components. Panama records one of the highest bird counts in the world due to its strategic location on migratory routes. The Darien and forested areas adjacent to the Panama Canal are especially diverse. Panama forms a critical link in the Central American biological corridor.

* The country's natural resources represent a potential attraction for tourism. The tourist industry could offset revenue and employment lost with the departure of the U.S. military. It is economically important, therefore, for Panama to take the steps to protect its environment.

* Subsistence farmers and cattle ranchers using slash and burn methods have long been the principal causes of deforestation.

* Large scale mining could well have an adverse impact on the environment. Panama's extensive deposits of copper, gold and other metals have attracted international attention. Unfortunately, many deposits lie in areas of virgin forest. Since deposits are shallow, open pit mining is the least costly extraction process.

* As mineral resources are exploited, new roads are built to access the deposits. As labor force migration increases, forest cover will be seriously impacted.

The following major achievements took place over the past 12 months:

* The Environmental Trust Fund was established.

* NATURA has already conducted 12 workshops for 83 Panamanian NGOs and other organizations. These workshops will continue. NATURA has awarded 30 mini-grants (approximately $5,000 each) to Panamanian NGOs using project funds over the last 2 years in support of environmental education, sustainable development and reforestation activities.

* A comprehensive Canal Watershed management strategy was drafted by a group of 30 private and public agencies, the Institutional Technical Committee (CTI), with assistance from the U.S. Bureau for Land Management. The strategy serves as the basis for a more detailed watershed management plan to be developed by the Inter-Oceanic Regional Authority in coordination with INRENARE.

* USAID awarded a contract for the demarcation of Soberania National Park in February 1995. Awards for demarcating at least three additional parks will follow in 1995.

* USAID is finalizing development of five park master plans with the assistance of the U. S. National Park Service.

* With assistance from USAID, the GOP's Geographical Information Center analyzed national forest cover for 1986. USAID will obtain 1995 remote sensing data, will procure equipment, and will train GOP personnel in the use of aerial surveillance to provide more frequent monitoring of key areas.

* The Panamanian Controller General's Office, as part of USAID's Financial Management Reform Project (525-0306), assisted INRENARE with installation of the GOP's new standardized accounting system. The Controller General is also establishing an environmental audit capacity to monitor natural resource management in the Canal Watershed and national parks.

Target of Opportunity

Reduced population pressure on the Canal Watershed

* Landless subsistence farmers are a growing threat to the Canal Watershed, with increasing numbers migrating into this vital area. The slash and burn agriculture they practice destroys forest cover and promotes rapid erosion. This affects lakes which provide water to operate the Canal, generate electricity and supply potable water to the cities of Colon and Panama.

* Private sector family planning services could help reduce population pressure in the Canal Watershed. Therefore, for environmental reasons the Mission proposes a grant to a local NGO with a proven track record in family planning. The Panamanian Association for Family Planning (APLAFA), an International Planned Parenthood affiliate, will provide services within the Canal watershed and adjacent areas which place pressure on the watershed.

* Panama's national contraceptive prevalence rate is estimated at 54.2%. However, family planning services within the Canal Watershed are not readily available. The grant to APLAFA will fund establishment of contraceptive baseline data for targeted populations, extension of family planning services and post-evaluation of program impact.

Improved Economic Policies/Business Climate

This heading was a Strategic Objective in last year's Action Plan, but it is being phased out as discussed in Section I, Strategy Overview. Limited activities in trade and investment, and housing guaranties will continue as targets of opportunity. Canal support is being shifted to Strategic Objective 1.

Panama In 1990

Following the economic and political crises of 1987-89, Panama's economy was devastated.

* Real GDP, in 1970 prices, had fallen from $2.1 billion in 1987 to $1.8 billion in late 1989. Real GDP per capita fell from $938 to $757 during the same period.

* Unemployment at the end of 1989 reached an estimated 30%.

* Total deposits in Panama's International Banking Center had fallen from $26.6 billion to $7.8 billion. Total public and publicly guaranteed debt amounted to $4.8 billion or 267% of GDP. Due to its suspension of debt service and accumulating arrears, Panama's ability to obtain badly needed financial resources was severely curtailed.

* Barriers to trade were common, contributing to a closed, uncompetitive economy. A mixed tariff structure of ad valorem and specific tariffs camouflaged high levels of nominal protection. More than 1,000 specific tariffs were in place. Such tariffs were regressive in the case of low value items and imposed a heavier burden on the poor. De jure and de facto regulations restricted market entry and retail price maintenance permeated the economy.

* A rigid labor code promoted capital intensive versus labor intensive industries and discouraged investment, particularly foreign investment. Highly inefficient and costly public utilities and transportation costs further discouraged investment.

* Cumbersome business licensing procedures and high import/export processing costs contributed to an unfavorable business climate.

* The economic policy making and implementation capacity of the Ministry of Planning and Economic Policy was very weak. A 1991 assessment of the situation revealed that policy making was poorly coordinated among Ministries and other government offices and that most public economists were deficient in analytical and quantitative skills.

* The turnover of the Canal was only ten short years away and there had been little planning for the transfer. U.S. properties that had reverted were not maintained and were badly deteriorated.

Panama 1995

Panama's economy today is very different from that of 1990. USAID's $451 million emergency program made a significant and immediate impact. It also strengthened other factors such as a return of investor confidence, and better government management of the economy. By any measure, the economic transformation was extensive:

* Output, measured by real GDP, began to recover in mid-1990 when it grew by 4.6%. It increased by 9.6% in 1991, a further 8.5% in 1992, and 5.4% in 1993. In 1994 the growth rate was 4.7%.

* Real GDP in constant dollars increased to $2.4 billion in 1994, an increase of $110 million over the previous year.

* Per capita GDP rose to $945 in 1994, which placed it at the levels attained before the political crisis of 1987.

* Inflation remained below 2% a year throughout the recovery.

* In 1993 unemployment declined to 13% of the work force according to official estimates.

* The GOP normalized its relations with the Paris Club and the IFIs, thanks to contributions of the Support Group. The latter included $130 million from the U.S.

* The GOP reached agreement with external bond holders on a refinancing arrangement. The new Administration places high priority on executing a Brady Plan debt reduction package with its commercial bank creditors.

* Deposits at Panama's International Banking Center increased to $17 billion, reflecting renewed confidence by the international financial sector in Panama.

* The level of trade has risen significantly in response to the recovery and to changes in trade policy. The level rose from $1.4 billion in 1989 to $2.8 billion in 1994.

* Complying with both USAID and IFI conditionality, the GOP eliminated specific tariffs on 617 specific customs classifications and reduced the ad valorem rates on another 322. Another 400 specific customs classifications are to be eliminated as part of the World Trade Organization accession process now underway.

* USAID assisted the GOP in preparation of its Free Competition Law (anti-dumping and anti-trust legislation). USAID supported studies analyzing trade issues and documenting the gains to be achieved from trade liberalization.

* USAID will have trained a total of 134 public sector employees and university instructors in advanced economic theory and quantitative methods. (To date, 39 female and 45 males have completed the course.)

* USAID procurement of computer equipment for the Government Statistics Office continues to provide GOP policy analysts and policy makers with timely data.

Panama 2000

Just as USAID contributed significantly to Panama's turnaround through its $451 million emergency program in 1990, the challenge for the second half of the 1990's is to transform Panama's economic recovery into sustainable growth and to carry out a strategically well planned transition of the Canal and reverted areas. The latter will support the Mission objective of strengthened civilian governance.

Sustainable broad-based growth requires a continuation of the efforts to reorient Panama's economic policies to a more business friendly environment.

* A major step in the reorientation process will be Panama's adhesion to the World Trade Organization. Through its assistance to Panama, the USAID has provided policy studies and tools to facilitate this effort.

* The Free Competition Law developed with USAID assistance will facilitate entry and improve the economy. The GOP has submitted a bill to the National Assembly which removes many of the incentives that supported the less competitive industries and that seeks to remove some of the distortions to the economy.

* USAID will continue, through 1996, to provide support to the GOP and private sector to assist them in their pursuit of a better economy for all Panamanians.

By the year 2000, Panama should be a member of the World Trade Organization. It should have eliminated most policy-induced distortions in its economy. Finally, it should be fully prepared to take on responsibility for the operation and maintenance of the Canal.

Targets of Opportunity

Trade and Investment will continue as a target of opportunity through early 1997. As the U.S.G. presence is reduced, Panama must develop alternative industries to replace lost revenue and employment.

* Tourism offers one such alternative. It has not been fully developed despite significant potential. The private sector business association, ANDE, with USAID assistance, analyzed the tourist sector in Panama and drafted a proposed Incentives Law to

place Panama on a more competitive basis with its chief competitors. The GOP legislature approved the law in 1994.

* ANDE will continue to assist implementation of the law and development of a comprehensive strategy to encourage tourism. Initial private sector reaction has been positive. In excess of $150 million of new investment in the sector is expected through 1997.

* To facilitate the entry of new businesses into the economy, USAID provided support to ANDE to evaluate business licensing procedures and develop legislation to reduce the red tape required to obtain a business license. The new Law, passed in late 1994, will reduce the time required from 6 months to 2 weeks. The law will be particularly beneficial to small and micro enterprises. With USAID support, ANDE will provide assistance to ensure full implementation.

* ANDE completed an analysis of the economy to identify constraints to further growth and modernization. The newly elected President of Panama received the report in August and included several of the recommendations in his government's economic plan, pledging to work with the private sector on their implementation.

* ANDE completed an initial analysis of nontraditional export crops. It selected several for trials to begin in April. USAID assistance will enable farmer cooperatives to carry out the trials.

Increased availability of low cost housing continues as a target of opportunity.

* As part of the Panama Canal Treaty, the U.S. pledged to make available $75 million under the Agency's housing guaranty program to help finance homes for low and median income families.

* The third and final tranche for $25 million is channeled exclusively through private sector banks. The program began January 1994 with an initial draw down of $7 million. Three banks have signed on to the program. Additional draw downs are expected in 1995. Resources will finance 2,000 new homes in the $10,000 to $22,000 range. The program has already delivered 1,138 new homes.

USAID ACCOMPLISHMENTS

Strategic Objective No. 1: *To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation*

Panama in 1990

- 21 years of military rule resulted in corrupt, dysfunctional, overstaffed and bankrupt public institutions. The public had little confidence in government.
- May 1989 national elections canceled during the vote count, with an opposition victory pending.
- Corrupt, dependent judiciary had a backlog of 16,000 longstanding criminal cases and 30,000 new ones.
- No national budget process, no systematic tax administration, no control of public finances, no functioning audit system anywhere in government.
- Canal properties which had reverted to Panama were in disrepair: the Panama/Colon railroad forced to close from lack of maintenance. No preparations or planning underway for transfer of the Canal or reverted areas.
- Public confidence in GOP organizations was low or non-existent.

Panama in 1995

- National elections of May 8, 1994, described by international observers as the "cleanest" seen in Central America.
- 94% of the eligible population registered to vote - 71% voted.
- Elected government officials included the president, a new national assembly of 72 members, 67 mayors and 535 local council members - the first time in Panama's history that local leaders were elected.
- The justice system has adequate funding (more than 2% of the national budget), competitive selection (536 new selections on merit), and systematic training (3,425 trained).
- From 1991 - 1993 the total number of criminal cases increased by 37%, from 13,341 to 18,282, while the number of cases resolved within one year improved from 55.5% to 57.6%.
- For the second straight year, the GOP prepared its annual budget with established government-wide standards.
- GOP agencies prepared year-end statements for the Controller General's annual report.
- The GOP tested a plan to strengthen internal audit units in 7 key pilot institutions.
- The GOP formally established institutions to plan the Canal transfer and the management of reverted areas.
- An August 1994 poll found 76% public confidence in the Electoral Tribunal and 70% public confidence in the Office of Controller General.

Strategic Objective No. 2: *To Protect the Canal Watershed and Other Natural Resources*

Panama in 1990

- Deforestation reached 57,000 hectares or about 220 square miles per year including areas in the Canal Watershed which became Panamanian property in 1979.
- Deteriorating forest resources and bio-diversity in and around parks. No systems in place to monitor or to prevent destruction.

Panama in 1995

- Mass media, Panamanian NGOs, and the GOP begin to address threats to the environment.
- Measurement of deforestation rates underway and a permanent surveillance system being established to monitor future deforestation.
- Panama requires environmental assessments for all capital projects.
- The government has officially designated 205,000 hectares of land and waterway in the Canal Watershed for protection. Another 45,000 hectares will soon be added.
- The NGO community plays a leading role in conservation and environmental protection.
- USAID, the Government of Panama, and a U.S. Private Voluntary Organization have established a $25 million Conservation Trust Fund to generate resources in perpetuity for PVO and government monitoring and protection of the Canal Watershed and national parks. When mature, the Fund will provide $1.5 million per year.

Improved Economic Policies/Business Climate

Panama in 1990

- Real GDP stood at $1.8 billion, down from $2.1 billion in 1987. Real GDP per capita stood at $757, down from $938 in 1987.
- Unemployment exceeded 30%.
- Economic policy was severely distorted, the product of years of populist leadership, special privileges, political favors, and the influence of drug interests.

Panama in 1995

- Economic output, measured by real GDP, began to recover in mid-1990 when it grew by 4.6%, followed by 9.6% in 1991, 8.5% in 1992, 5.4% in 1993, and 4.7% in 1994.
- In constant dollar terms, real GDP increased to $2.4 billion in 1994, an increase of $110 million over the previous year. Per capita GDP rose to $945 in 1994, or at the level attained before the political crisis beginning in 1987.
- Unemployment declined to 13% of the work force in 1993.
- The GOP eliminated specific tariffs on 617 customs classifications and reduced ad valorem rates on 322.
- The GOP has the ability to formulate and execute sound economic policy. USAID training 134 public sector employees and National University instructors in modern economic theory and quantitative methods. USAID-financed computer equipment, provides policy analysts and policy makers with timely data.

III. FY 1996-1997 PROGRAM PLANS AND RESOURCE REQUIREMENTS

1. Program Resource Requirements

Table 3 presents a summary of the Mission's Development Assistance requirements for the planning period. Projects primarily finance technical assistance and training which are relatively low cost. As described under Strategic Objective No.1, the Humanitarian Assistance/Excess Property Program complements our dollar funded program. Excess Property resources reach the most disadvantaged people in Panama.

Two new projects, approved in the last Action Plan review (see 94 STATE 143163, paragraphs 13 and 14) contribute directly to the Mission's Democracy Objective and focus on expanding the institution-building emphasis of the portfolio to include greater participation by a broader segment of the Panamanian population. The Municipal Development Project will begin in FY 1995 to promote community participation in local government. Current year budget constraints force delay of the PVO Support Project start to FY 1996.

The Mission plans a small grant in FY 1995 to a local NGO to expand family planning services in the Canal Watershed. Global Bureau technical assistance would improve monitoring and evaluation.

2. Performance Measurement

USAID/Panama meets the required standards. Based on recent recommendations from the IG, we have improved monitoring and data collection. These steps are outlined in Annex A, Changes in Strategic Plan/Performance Measurement.

3. Donor Coordination

USAID has initiated monthly coordination meetings with the local representative of the Inter-American Development Bank (IDB). The IDB is Panama's largest donor with $750 million available for 1995-1999. The Mission also holds periodic meetings with the United Nations Development Program (UNDP) and bilateral donors. USAID consults with representatives of the World Bank and International Monetary Fund (IMF) during their missions to the country, and with the United Nations Development Program (UNDP) and other donors with a presence in Panama.

Soon after USAID's return to Panama the Mission worked closely with the IDB, World Bank, the IMF and several bilateral donors to develop an economic assistance package for Panama. Donor coordination has expedited GOP compliance with conditionality attached to that package. One result has been relaxation of trade barriers on the part of the GOP. Another consequence is the movement toward privatization which

has already resulted in the privatizing of Cemento Panama and several smaller GOP operations. The GOP recently passed legislation to privatize the telephone company.

The World Bank economic recovery loan supports efforts to restore a viable medium-term fiscal framework. Building on experience with that loan, the World Bank has adopted a selective strategy for Panama that moves away from adjustment lending toward poverty alleviation and reviving sustainable growth. Its 1996-1998 program reflects this strategy with $180 million to support GOP policies and initiatives in employment creation and poverty alleviation, especially in rural areas through support for rural health and nutrition, basic education, self-help projects through the social emergency fund, and land management.

The IDB is currently following up on a USAID initiative in the Canal transfer process. IDB is financing a master plan for all of the reverted areas. This is based on earlier work by USAID. The IDB is also providing assistance to the GOP's Special Emergency Fund (FES) which USAID helped strengthen with a grant soon after our return to Panama. The IDB's social lending program represents the first major IFI assistance provided to Panama beyond the 1991 Economic Recovery Program.

4. New Activity Description - Existing Project

$1,000,000 increase in LOP

LAC BUREAU OBJECTIVE:	Building Democracy
SUB-OBJECTIVE:	Good Governance
MISSION STRATEGIC OBJECTIVE:	To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation
PROJECT TITLE:	Economic Policy Development (Canal Support Component)
PROJECT NUMBER:	525-0313
FISCAL YEARS:	FY91-FY99
LOP FUNDING:	$7,000,000
TYPE OF FUNDING:	ESF ($3,100,000) FY 91; EHR ($1,000,000) FY 92; DP ($1,900,000) FY 94; DP ($1,000,000) FY 97; DA ($1,000,000)

I. Strategic Fit with Agency/Bureau Goal:

Under this NAD the LOP funding for the Economic Policy Development Project would increase from $6 million to $7 million. Additional funding will augment Project funds already allotted for supporting Panamanian efforts to prepare for the transfer of the Canal and associated military/Canal properties. The Canal Support Component of the Policy Development Project directly supports the Bureau goal of building democracy. It will support the institutions responsible for the reversions of U.S. property and transfer of the Canal. The orderly and timely transfer of the Panama Canal and the successful reversion of U.S. military and Canal properties is a priority foreign policy goal for the U.S. in Panama. A successful transfer will promote long-term economic and political stability in Panama.

More than 12,000 ships transit the Canal each year transporting nearly 160 million tons of cargo. The continuous, reliable operation of the Canal has contributed for 80 years to reduce shipping costs and lower product prices for consumers in the United States and throughout the world.

The Canal directly accounts for 8 to 10 percent of Panama's GDP and employs over 8,000 workers. A problematic transfer and/or unreliable operation after the year 2000 would result in serious disruption of world trade, higher consumer prices and serious economic problems for Panama.

Although the Panama Canal Treaties were signed in 1977, there has been slow progress in implementing their provisions, particularly those pertaining to reverted properties. The previous GOP administration initiated planning for the transition process but much remains to be done. For example, a national strategy for utilization of the resources, lands, and facilities of the reverted areas has yet to emerge, although two major U.S. military installations are due to revert to Panama in December, 1995.

II. Consistency with Mission Strategy:

The Economic Policy Project is in its fourth year. We are amending it to reflect both its successful initial implementation and the changing institutional and economic environment in Panama. To date, the project has provided technical assistance to the Panamanian Ministry of Planning and Political Economy to support the formulation and management of sound economy policy. It has trained economists, both in the public sector and the universities, in economic theory and quantitative methodologies. It has supported the GOP's efforts in creating organizations to manage the reverted properties and to oversee the Canal transfer process. Under the auspices of the Canal Support Component, the project financed the preparation of the Transition Plan for the Transfer of Panama Canal Operations and has assisted the GOP in preparing for the reversion.

This NAD constitutes a revision to the new project description submitted in 1993 for the Economic Policy Development Project. On that occasion, the project was amended to provide a two year extension and a $1.0 million increase in the life of project principally to assist the GOP with planning for the Canal transfer. At that time it was envisioned that additional funding might be required. Under this NAD, additional incremental funding in the amount of $1.0 million and an additional three years in the life of project are proposed. As amended, the project assistance completion date will be extended to September 30, 1999, which coincides with the conclusion of the Canal transfer.

A. Activity Goal: The goal of the project remains: sustained economic growth with benefits for and participation by all Panamanians.

B. Project Purpose: The project purpose remains: to assist Panama in expanding and strengthening the process of economic policy making and in its preparations for assuming responsibility of the canal and reverted areas. The project has three components with activities that strengthen and expand that process: Economic Policy, Economic Training, and Canal Support. Only the Canal Support Component is to be extended.

C. Description: The Project originally included $1 million to support GOP preparations for the Canal transfer. That amount was increased initially to $1.4 million under a change to the budget and

then to $2 million when the Project was amended in 1994. The funding included in this proposed amendment will continue the support to better enable the GOP to plan for the transfer of the Panama Canal and the reversion of U.S. areas and properties to Panamanian control.

There has been progress in this area. The following is illustrative:

* The project helped the Presidential Commission for Canal Affairs prepare enabling legislation for the Panama Canal Authority (ACP), the entity charged with supervising the Canal's transfer. An amendment to the Panamanian Constitution was required to authorize the ACP as an autonomous agency. Two sessions of the National Assembly passed on the proposed amendment, and it is now law.

* With project assistance, the Presidential Commission contracted the preparation of the Transition Plan, which describes the extensive organizational and administrative preparations that will be required for an orderly transfer and lays out a strategy for doing so.

* The Government of Panama established the Interoceanic Regional Authority (ARI) in 1993 to manage and develop reverted areas that are not critical to Canal operations. ARI is now operational, has transferred one facility and is preparing to transfer several others. The Project provided ARI technical assistance with the preparation of a land use and development plan for Fort Amador. The Project has financed the procurement of Geographic Information System (GIS) equipment and additional technical assistance for ARI's real estate development and management functions.

The amended project will finance the following types of activities in support of the orderly and timely transfer and reversion processes:

* Implementation of the Canal Transition Plan, as adopted by the recently established Transition Commission. Short to medium-term consultants will be provided to assist the Commission with the preparation of enabling legislation for the Panama Canal Authority (ACP). Consultants will help design management systems and revise the Transition Plan as circumstances require.

* Limited start-up assistance. This includes organizational development, computer support, and other equipment.

* Upon execution of the contract to prepare a Master Plan for the Use of Reverted Areas and watershed, USAID will assist ARI or its successor agency with the procurement of additional Geographic Information System equipment needed to develop the plan.

* USAID will help finance feasibility studies to identify potential sites in reverted areas for the development of research and education facilities and will consult with the U.S. and Panamanian private sectors and the GOP to develop the terms of reference for these studies.

No changes are required in the project's logical framework or in the Mission's objective tree for this amendment.

D. Donor Coordination: The World Bank's recently published *Panama: Country Assistance Strategy* (R95-5/1, February 7, 1995) projects a sizeable stream of capital flows for the remainder of the century and beyond from the lease and/or sale of assets in the reverted areas. The World Bank recommends the investment of these revenues in the rehabilitation of dilapidated infrastructure and the further development of reverted areas through private investment. The Inter-American Development Bank (IDB), in coordination with USAID, is financing a comprehensive Master Plan for the Reverted Areas and Watershed ($8 million). The IDB's large program of sector lending remains a source of long term funding for activities supportive of the transfer and reversion processes. The IDB is in a position, therefore, to make maximum use of feasibility studies financed by USAID grant resources. Monthly donor coordination meetings with the IDB structure and strengthen day-to-day informal communications.

E. Management and Support Requirements: One FSN professional will manage the Project under the supervision of the Chief of the General Development Office.

F. Timetable and Resource Requirements: The project paper amendment will be prepared by USAID staff. The amendment is scheduled for completion by the end of January 1996 with the project agreement to be signed by the end of May 1996.

G. Recommendations on Delegation of Authority: USAID/Panama requests LAC program concurrence for the Mission to develop and approve the project amendment in the field.

TABLE 3
USAID/PANAMA
SUMMARY PROGRAM FUNDING TABLE
Dollar Program
($000)

525	PROJECT TITLE	FY 95	FY 96 REQUESTED	FY 96 +5%	FY 96 -3%	FY 96 -25%	FY 97 REQUESTED	FY 97 +5%	FY 97 -3%	FY 97 -25%
	DEVELOPMENT ASSISTANCE									
	SO#1 - DEMOCRACY/GOVERNANCE									
0000	PD&S	100	100	100	100	100	100	100	100	100
0101	SPECIAL DEVELOPMENT ACTIVITIES	110	110	110	110	110	110	110	110	110
0306	FINANCIAL MANAGEMENT REFORM						500	500	500	
0312	IMPROVED ADMIN. OF JUSTICE						750	1000	750	
0313	ECONOMIC POLICY DEVELOPMENT						1000	1000	1000	1000
0322	PVO SUPPORT		1500	1500	1500	1000	1000	1000	1000	1000
0324	MUNICIPAL DEVELOPMENT	1000	1500	1500	1500	1000				
1001	CLASP II	1196	1973	2190	1790	1390	2325	2390	2140	1990
	SUBTOTAL DA	***2406***	***5183***	***5400***	***5000***	***3600***	***5785***	***6100***	***5600***	***4200***
	SO#2 - ENVIRONMENT									
0308	NATURAL RESOURCES MGMNT.		602	700	600	600	500	500	500	500
0325	FAMILY PLANNING	500								
	SUBTOTAL DA	***500***	***602***	***700***	***600***	***600***	***500***	***500***	***500***	***500***
	TARGET OF OPPORTUNITY ECONOMIC GROWTH									
0309	TRADE & INVESTMENT		500	500	500	500				
TOTAL DA		***2906***	***6285***	***6600***	***6100***	***4700***	***6285***	***6600***	***6100***	***4700***

USAID/PANAMA
PORTFOLIO - PROJECT TIMELINE

NO.	PROJECT TITLE	FY 94				FY 95				FY 96				FY 97				FY 98				FY 99			
525		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
0281	PANAJURU			X																					
0287	PRIVATE SECTOR LOW COST HOUSING										X														
0306	FINANCIAL MANAGEMENT REFORM															X									
0308	NATURAL RESOURCES MGMNT.																								
0309	TRADE & INVESTMENT DEVELOPMENT													X											
0312	IMPROVED ADMIN. OF JUSTICE															X									
0313	ECONOMIC POLICY DEVELOPMENT																								
0314	TAX ADMINISTRATION IMPROVEMENT											X													
0317	IMPROVED ELECTION ADMINISTRATION							X																	
0320	CRUZ BLANCA PVO		X																						
0322	PVO SUPPORT																								
0324	MUNICIPAL DEVELOPMENT																								
0325	PVO FAMILY PLANNING															X									
1000	CAPS					X																			
1001	CLASP II																								

Total Active Projects at the end of the 4th Qtr 10 11 9 5 5 5

IV. FY 1996-1997 PROGRAM MANAGEMENT REQUIREMENTS - WORKFORCE/OE

Program Management - USAID/Panama will have thirteen active projects through the end of FY 1995, declining to eight at the end of FY 1997. (Active projects include PD&S and SDA.) While project officer span of control is stretched, the current level of six USDH positions is adequate to maintain effective administration over USG funds and to contribute to achievement of the Mission's two Strategic Objectives.

USAID/Panama's USDH staff now includes the following:

-Mission Director in charge of maintaining high profile/high level contacts with the GOP, other donors, private sector, NGOs, and the country team, and providing overall Mission direction and supervision;

-Project Development/Program Officer (PDO/PO) who oversees project/program development and general monitoring, evaluation, tracking of key program indicators, strategy development, program operation, acts as the de facto deputy Mission Director and provides back-up to other divisions as required by staff vacancies;

-Executive Officer who in addition to normal executive functions oversees the Excess Property Program which transfers millions of dollars each year in U.S. military and Panama Canal Commission "excess" property to the GOP and Panamanian NGOs;

-Controller whose functions have greatly increased this year as USAID/Panama becomes a full accounting station;

-Two Project Officers who share supervision/management of the Mission's project portfolio in support of the Mission's two Strategic Objectives.

USAID/Panama depends upon the services of regional offices such as RLA, RCO, and RHUDO and has received good support. To augment Mission resources, USAID/Panama must also have support from USAID's central and regional technical offices. Further, because of our limited budget this support must be at no cost to the Mission. While we do not have a firm estimate of the capabilities of these offices we expect to require support in the following areas:

Democracy - Governance Capacity Building, Rule of Law, and AOJ (598-0669). The G Bureau has budgeted $125,000 to support Panama in FY 1995. We anticipate needing similar support in FYs 1996 and 1997.

Environment/Remote Sensing - We will require 10 weeks of TDY assistance per year in these areas. Sources are the G Bureau and USAID Guatemala.

HIG - One week per quarter from RHUDO.

Action Plan Preparation - Three weeks each year from LAC/DPB/EA.

As discussed in the last Action Plan, **six USDH positions are the absolute minimum necessary** through FY 96 for effective control and monitoring. Loss of a single position during FY 96 would force curtailment of major program activity. The Mission has absorbed over a 50 percent cut in 4 years, losing four USDH positions from 1991 to 1993 and another three in 1994.

Several projects are scheduled for completion in FY 1997. At that time the Mission will begin an orderly phase down of operations, to be completed by December 31, 1999. Staff reductions will be tied to project completion. USAID/Panama will reduce the number of USDH positions to five by the end of FY 96 and to four positions by the end of FY 97 and maintain that level until the Mission closes in December 1999.

OE - In analyzing USAID/Panama's OE requirements, one should recognize the following special circumstances that contribute to USAID/Panama's OE to program funding ratio:

- Panama has a dollar based economy. The local currency is the U.S. dollar. Unlike any other mission in the Bureau, all USAID/Panama costs are billed and paid in U.S. dollars. Panama is not insulated from external (U.S.) inflation.

- The cost of doing business in Panama is high for several reasons. Panama City is a large, international banking center, comparable to Miami. The wage rates for the Panama Canal Commission, the country's largest employer after the GOP, are based on the U.S. Government's civil service salary scale. Ten major U.S. military bases remain in Panama and many U.S. multinational companies have subsidiary offices in the country. This situation contributes to high wage rates. As a result, FSN salaries, office rents and residential rents are much higher in comparison to other capital cities in Central America.

- In FY 94 and FY 95 the Mission experienced drastic program cuts.

- The Mission is working to reduce a $23 million pipeline left from the high budget years after Operation Just Cause. This pipeline is spread over highly staff intensive projects requiring changes in the "corporate culture" of the GOP that will better prepare it to take responsibility for operation of the Canal.

- The USAID/Panama portfolio is not based on the buy-in model employed by USAID Offices in Brazil, Mexico and Colombia.

- The Mission manages an off-budget Excess Property/Humanitarian Assistance Program, which amounts to approximately $5 million per year as well as a $25 million Housing Investment Guarantee Program that is

a Canal Treaty requirement.

Due to the above factors, USAID/Panama's OE to program funding ratio is high. However, this must be weighed against U.S. national interest in a smooth transfer of the Panama Canal and reversion of U.S. military bases.

Over the last six months, the Mission has taken decisive steps to reduce OE requirements. FSNs represent the largest OE cost, accounting for one-half of the annual OE budget. Table 4 shows an orderly decline in FSN staff. By the end of FY 1996, we will have achieved a 20% reduction in FSNPSCs from the level at the end of FY 1994, with a further reduction by the end of FY 1997 and beyond. However, in FY 1996 and FY 1997 the Mission must fund significant separation payments as senior FSN positions are eliminated. These one-time payments are included in the major function code "U300 Contract Personnel" in Table 4.

The OE costs for nine FSN positions will be eliminated in FY 1995. These include two FSN controller positions USAID/Panama funded in USAID/Costa Rica but which did not appear as positions on our staffing pattern. In FY 1995 USAID/Panama terminated three FSN positions. By May, 1995, we will have established a trust fund which will cover the costs of four FSNs required for management of the Humanitarian Assistance/Excess Property Program. Creation of the trust fund took longer than expected due to U.S. Treasury requirements. The Treasury has now approved the trust wherein the GOP deposits $600,000 in a U.S.-based bank branch in Panama. This amount will cover FSN costs under the Excess Property Program for five years.

In March, 1995, USAID/Panama will begin operation as an independent accounting station and paying office. (These functions were previously provided by USAID/Costa Rica.) The transfer will save the Agency about $47,000 in annual communication costs and $54,000 in net payroll savings. In addition to OE savings, stronger internal controls will result from this change. The certifying officer (Controller, USAID/Panama) will be closer to the actual point of performance and, therefore, better able to discuss questions directly with administrative approving officers in the Mission.

TABLE 4a
USAID/PANAMA
OE FUNDING REQUIREMENTS
($000)

OE/TRUST FUNDED LEVELS By Major Function Code:	FY 95	FY 96	FY 97	FY 98	FY 99	FY 2000
U100 U.S. Direct Hire	161	134	120	100	100	10
U200 F.N. Direct Hire	12	0	0	0	0	0
U300 Contract Personnel	1,148	1,051	1,080	800	600	50
U400 Housing	220	220	200	150	150	20
U500 Office Operations	645	630	600	450	350	20
U600 NXP Procurement	33	33	0	0	0	0
Total Mission Funded OE/TF Costs	**2,219**	**2,068**	**2,000**	**1,500**	**1,200**	**100**
Of which Trust Funded	120	125	130	130	130	0

Mission Staffing Requirements

	FY 95				FY 96				FY 97				FY 98				FY 99				FY 2000**			
	USDH	USPSC	FSN	Other	USDH	USPSC	FSN	Other	USDH	USPSC	FSN	Other	USDH	USPSC	FSN	Other	USDH	USPSC	FSN	Other	USDH	USPSC	FSN	Other
Total Authorized Positions	6	2	44		6	2	37		5	2	34		4	2	25		4	2	15		1		5	
of which Program funded		2	3.5			2	3.5			2	3.5			2	4			2	4					
of which Trust funded			4				4				4				4				4					

**FY 2000: For the first quarter only (10/01/99 to 12/31/99).

TABLE 4b
USAID/PANAMA
ALTERNATE OE FUNDING LEVEL
($000)

OE/TRUST FUNDED LEVELS By Major Function Code:	FY 95	FY 96 REQUESTED	FY 96 +5%	FY 96 -3%	FY 96 -25%	FY 97 REQUESTED	FY 97 +5%	FY 97 -3%	FY 97 -25%
U100 U.S. Direct Hire	161	134	141	130	101	120	126	116	90
U200 F.N. Direct Hire	12	0	0	0	0	0	0	0	0
U300 Contract Personnel	1,148	1,051	1,104	1,019	788	1,080	1,134	1,048	810
U400 Housing	220	220	231	213	165	200	210	194	150
U500 Office Operations	645	630	662	611	473	600	630	582	450
U600 NXP Procurement	33	33	35	32	25	0	0	0	0
Total Mission Funded OE/TF Costs	***2,219***	***2,068***	***2,171***	***2,006***	***1,551***	***2,000***	***2,100***	***1,940***	***1,500***
Of which Trust Funded	120	125	125	125	125	130	130	130	130

V. MISSION INITIATED ISSUES

There are no Mission Initiated Issues.

VI. SPECIAL REPORTING REQUIREMENTS

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: Baseline information is now becoming available through USAID financed LANDSAT photos and equipment. Initial analysis suggests that in 1986, 42% of Panama's total area was covered by forests. Compared to 1970, deforestation had averaged 56,700 hectares per year for the period 1970-1986. At this rate, Panama's forest cover will be reduced to only 30% by the year 2000. However, all indications are that the pace of deforestation has accelerated since 1986. Deforestation threatens Panama's biodiversity and jeopardizes the Central American biological corridor. Within the Canal watershed, forest clearing for lumber and agricultural uses threatens the water supply for about one-half of Panama's population, and the future operation of the Panama Canal.

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 rain forest exist in the country. Loss of this biological diversity is directly linked to deforestation and the conversion of present forests and natural areas to pasture lands and other unsustainable agricultural activity.

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

Protected Areas Management: Panama contains 20 protected areas representing all 12 terrestrial life zones and marine habitats, and covering approximately 1.2 million hectares. Most "protected" areas are not within well managed parks or reserves. The GOP lacks trained personnel and necessary equipment to effectively monitor and manage these "protected" areas.

B. Progress made in 1994:

The Panama Canal Watershed contains one of the largest concentrations per hectare of tropical biodiversity in the world. The Watershed also provides fresh water for operation of the Canal and potable water for the one million people who live in the metropolitan areas of Panama City and Colon. Five national parks along the banks of the Canal contain a total area of 160,000 hectares and help protect important areas of the Watershed. Panama declared an additional 45,000 hectares of reservoirs and waterways protected in 1993. The remaining 40,000 hectares of forest areas within the Canal watershed have been proposed for inclusion in a new "National 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 under discussion by the government agencies involved, including the Inter-oceanic Regional Authority which is responsible for development of a Watershed management plan for the Canal.

USAID's Natural Resources Management Project (525-0308) continues to assist the GOP Institute for Renewable Natural Resources. Project implementation will accelerate now that USAID, the GOP, and a U.S. PVO have established an ecological endowment fund which is integral to public and private efforts to protect Panama's natural resources. Work to establish this fund was initiated in 1991. Original plans for a debt-for-nature swap to establish the environmental trust fund were unworkable because the GOP and commercial banks holding Panamanian debt could not agree on conditions which would allow the swap to proceed. Recent revisions to the Foreign Assistance Act permitted use of appropriated funds to create the endowment. On February 15, 1995, USAID signed an agreement with the GOP and the U.S. PVO to establish the fund. The agreement provides a trust fund of $25 million. This includes contributions of $15 million from GOP-owned reflows from a prior USAID project. USAID directly contributed $8 million from funds obligated for this purpose in FY 1991. The Nature Conservancy, a U.S. PVO, contributed $2 million. Proceeds from the fund will support conservation and other environmental activities of private NGOs and community groups, and selected GOP entities.

Progress has also been made in other components of the Natural Resources Management project.

- The GOP has established an inter-institutional committee (CTI) to coordinate environmental activities. With USAID financed assistance from the U.S. Bureau of Land Management, the CTI has drafted a comprehensive strategy for management of the Canal watershed. This strategy was developed with cooperation from more than 30 private and public organizations, and will be used by the GOP's Inter-oceanic Regional Authority to prepare a watershed management plan. Five park management plans were also drafted in 1994.

- USAID provided equipment, technical assistance, and LANDSAT photos for an analysis of deforestation up to 1986. Before the end of 1995, this analysis will be updated for 1992 and 1995.

- Under a law passed in 1994, the GOP Institute for Renewable Natural Resources is now responsible for review and approval of environmental studies on all public and private capital projects.

Changes in Strategic Plan/Performance Measurement System

As with previous years, the Action Plan provides the Mission an opportunity to re-examine strategic objectives and related program outcomes and indicators and to adjust them to reflect the current emphasis of the program. Budget cuts also force adjustment.

* Declining program and OE budgets have already resulted in USAID/Panama staff reductions. USDH positions declined from thirteen in 1991 to nine in 1993 to six in 1994. Support and professional FSN staff have also been reduced.

* The IG faulted USAID/Panama systems for monitoring and evaluation of project activities, as well as Mission systems for measuring program and project results. We are now overhauling these systems. We expect to close out all Audit Recommendations by October, 1995.

* The Prime Justification for the USAID/Panama program remains the U.S. foreign policy objective: Successful Implementation of the Canal Treaties. All Mission projects and programs contribute to that ultimate objective.

* **Strategic Objective No. 1: To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation.** This remains the Mission's major effort.

  - Successful completion of national elections last year allows dropping that outcome and its two indicators.

  - The GOP has established entities to deal with the Canal transfer and the transfer of reverted areas. Our support for these key institutions now falls under this Strategic Objective; we have added two new outcomes with their indicators.

  NEW Strategic Objective No. 2 - To Protect the Canal Watershed and Other Natural Resources (previously Strategic Objective No. 3). We have narrowed this, as recommended in the last Action Plan review (94 STATE 143163)

  - We have established with the GOP and NGO's an environmental trust fund to support efforts under this S.O.

  - We will concentrate most of our efforts in the Canal Watershed.

  - We will concentrate our efforts on increasing the effective presence of the GOP Institute of Renewable Natural Resources (INRENARE) in the Canal Watershed and National Parks. We will provide continued assistance to strengthen INRENARE's capacity to manage and support an increased field presence and to

develop effective monitoring and environmental assessment. However, the strengthened institutional capacity of INRENARE has been dropped as a separate outcome.

- Reduced population pressure on the Canal Watershed is critical to achievement of the Strategic Objective. Therefore, we will support expansion of private sector family planning services in the Canal Watershed as a target of opportunity.

* **OLD Strategic Objective No. 2 - Improved Economic Policies/Business Climate** has been dropped as a Strategic Objective.

- As recommended in the last Action Plan review, two of the Outcomes under this Strategic Objective. "Improved macro-economic and fiscal policy" and "Increased and diversified exports" were dropped.

- As noted above, support for the Canal transition has been placed under Strategic Objective No. 1.

- The Mission's Housing Guaranty program (a Treaty related initiative) remains a target of opportunity. About $18.0 million remains to be utilized.

- USAID will provide limited assistance to help expand trade and investment as a target of opportunity. This will also support regional and Summit of the Americas trade initiatives.

* We have reduced the number of objective-level indicators from six to five and program outcomes from 12 to 6. We have cut related indicators from 26 to 16. This will contribute to improved reporting. These steps are consistent with recommendations in STATE 044878, FY 1997 Budget Guidance Message.

The following table shows how the Mission's Strategic Objectives have evolved over the last five years and how we have concentrated our program as resources declined.

FY 96 - FY 97 Strategic Objectives

To strengthen civilian government institutions and encourage greater citizen participation	To protect the Canal Watershed and other natural resources

Targets of Opportunity:
- Low cost housing
- Trade and Investment
- Reduced population pressure on the Canal Watershed

FY 94 - FY 95 Strategic Objectives

Competent civilian government institutions and greater citizen participation	Improved economic policies/business climate	Preservation of natural resources

FYs 1991-1993 Strategic Objectives

Strengthened competent civilian government institutions	Increased pluralism and public partici-pation 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

Target of Opportunity: Low cost housing

Summit of the Americas Initiatives

General: Both of USAID Panama's Strategic Objectives - "To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation" and "To Protect the Canal Watershed and Other Natural Resources" - contribute to the initiatives discussed at the Summit of the Americas. A third Strategic Objective on economic policies and business climate is being phased out during FY 95. Activities under that objective have contributed to a more open and business-friendly environment and will continue to provide some limited support over the next year. Provided below is a description of USAID's program keyed to the Summit Principles.

Summit Principle: To Preserve and Strengthen the Community of Democracies of the Americas

Strategic Objective 1: To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation

A democratically elected government took office in 1990 after decades of military dictatorship had disabled virtually all forms of democratic leadership at the national and local level. The government's executive ministries, the courts and the national legislature, had lost most of the capacity to meet their responsibilities in an efficient or modern way.

Since 1990, the Agency for International Development has helped establish effective management systems within the courts, the Public Ministry (prosecution), and the public defenders' service related to criminal case management. USAID helped the country conduct national elections in May of 1994 by strengthening the national electoral authority and through civic education. The democratically elected legislature improved its committee structure, information systems, and responsiveness to constituents. The USAID program emphasizes increased participation by women and men through non-governmental organizations (NGOs) at all levels of society.

Criminal Justice

A critical Human Rights problem confronting the criminal justice system in 1990 involved a justice system which permitted defendants to languish in prison beyond legally required deadlines for trial. USAID has supported four sets of activities to reduce the percentage of detainees awaiting trial beyond those limits:

1) USAID developed a case management and case tracking system which for the first time uses a unified numbering system for all offices within the courts and the Public Ministry who handle a given case. As a result, case status is readily known, responsibility for pending action is apparent, and data can be collected to pinpoint choke points in the system so that structural and procedural changes can be made. The new system is already in use in those offices responsible for over 75% of all criminal cases in the country, and the system will be in use nationwide by the end of the year. Data show that the new systems have produced more professional attention to duty by criminal justice officials, and the new tools for measurement and tracking are catalyzing changes in administrative practices. These changes are designed to reduce the possibility of corruption of the process through delay or improper influence.

2) The second feature of work to date is integration of the daily work of prosecutors with that of police investigators. Previously there was little or no communication. Collection of evidence and trial preparation left much to be desired. USAID development activity, in coordination with that of other U.S. agencies, has brought prosecutors and police investigators together to develop cases more thoroughly. As a result, the courts less frequently return cases for further work.

3) The third component is the operation of the Judicial School which provides continuous training for officials at all levels of the courts, Public Ministry, and public defenders service. Training covers law, management, human rights and corruption issues.

4) Finally, since 1990 the public defender system has been staffed and trained. This should contribute to greater equity and to improved public perception of the criminal justice process.

Other United States agencies are working to strengthen the structure and operation of the police and prisons systems.

Elections

In 1990 the Electoral Tribunal was rated among the least trustworthy of all Government of Panama institutions. Major changes in management, internal systems, and professional capacities resulted from cooperative work under a USAID project. In 1992 the Tribunal successfully conducted a National Referendum. The Tribunal's preparation for the 1994 elections, the first completely free elections in two generations, included extensive civic education campaigns, financed by USAID/Panama. The elections were a success, with 94% of eligible voters registered and a voter turnout of 71%. International observers termed the election free and fair. Public opinion now rates the Tribunal as the most respected entity in the country, second only to the Catholic Church.

Legislature

With the help of both USAID regional and bi-lateral assistance, the legislature has evolved from a barely functioning assemblage of individuals to a body of working committees, professional staff, modern library and communication resources.

Civic Participation

USAID has targeted community leaders under the Thomas Jefferson Fellow participant training programs to serve in each of the ten provinces as councils for its CLASP-II training project and for ongoing community development. Provincial Committees have conducted nationwide surveys on development needs, established networks of communication among professionals in shared fields of interest and organized activities outside the scope of USAID programs. This has demonstrated the sustained change in the culture of involvement in Panama and in the skill level of community members to help themselves.

Under The Special Development Activities Program, communities provide roughly fifty percent of the value of aqueducts, clinics and school construction. Since 1990 approximately 20,000 members of poor rural communities have participated in these projects.

Municipal Development

The 1994 elections brought to office for the first time in Panamanian history elected local officials. USAID is now completing the design of a municipal development project which will assist in training the new corps of leaders. The project will help develop the tools they need to better manage the resource generating authority they have, to incorporate public dialogue in the decisions they make, and in designing proposals to devolve authorities now resident in the central government.

Private Voluntary Organizations

Also under design is a project which will assist the development of PVOs in Panama.

The Project will focus on civic education with an emphasis on women and other disadvantaged groups.

Summit Principle: To Guarantee Sustainable Development and Conserve Our Natural Environment for Future Generations

Strategic Objective 2: To Protect the Canal Watershed and Other Natural Resources

Panama is exceptionally rich in biodiversity, particularly in the Darien Region and in the tropical forests along the Panama Canal

Waterway. The Canal depends on a continuous and abundant source of lake water for its operation. For these reasons, USAID supports the Government of Panama (GOP) and private organizations in the protection of natural resources, with emphasis on the Canal Watershed. Most assistance in the environmental area is provided through the Natural Resources Management Project (MARENA). It supports the Summit initiatives and the CONCAUSA Accords. The following discussion on Mission activities, and particularly those under MARENA, is keyed to the Matrix developed for the CONCAUSA Action Plan.

I. Conservation of Biodiversity:

1. Support the consolidation of the national systems of protected areas (SNAP):

MARENA is assisting the Institute of Renewable Natural Resources (INRENARE), the GOP agency responsible for the management and protection of Panama's national parks and reserves, to better carry out its responsibilities. Panama has set aside over 14% of its territory in parks/reserves, but INRENARE cannot effectively protect and manage them. USAID support will improve INRENARE management and operations, train its personnel, construct housing facilities for forest guards and procure equipment to increase park/reserve protection. USAID support will also improve INRENARE's biodiversity monitoring and control capabilities as discussed below.

2. Support the development of national strategies and preparation of biodiversity inventories:

MARENA will fund rapid ecological assessments in key parks to establish a baseline on biodiversity. A local NGO trained by The Nature Conservancy (TNC) will do the initial assessments. Park staff will conduct the remainder. Assessments will be repeated every three years to assess impact. The Department of Defense is complementing this effort by conducting rapid assessment inventories of its military sites in key areas of the Canal Watershed.

3. Support opportunities to strengthen national mechanisms for external conservation:

USAID supports INRENARE and the NGO community directly and through the Environmental Trust Fund described below.

4. Promote the participation of indigenous populations in conservation and sustainable development of biodiversity:

USAID/Panama, the GOP and the Nature Conservancy recently established a $25.0 million Environmental Trust Fund. Approximately 50% of the Trust's earnings will support NGOs,

community groups and educational entities, who will carry out conservation and environmental activities in the Canal Watershed and in the buffer areas surrounding national parks. Reforestation, environmental education and the promotion of sustainable agriculture will receive priority attention. While indigenous communities are not a specific target. Resources will be made available to indigenous communities in the project areas. The remaining 50% of the Trust's earnings will help INRENARE maintain and operate infrastructure/equipment procured under the Project.

5. Support the conservation and sustainable use of Coral Reefs and other marine ecosystems:

The current USAID/Panama program does not focus on marine ecosystems. We suggest Global and/or regional USAID funding to help protect these resources. The Mission is also exploring the possibility of submitting a proposal under the Environmental Initiatives for the Americas for a small grant to work with the Smithsonian or an NGO in this area. Because INRENARE is also responsible for marine resources, those resources will benefit from efforts under MARENA to improve INRENARE's management.

6. Support the improvement and the coordination of the Geographic Information System at the national and regional level:

Through the MARENA Project, USAID has financed Geographic Information System equipment and training for INRENARE and a local mapping institute. USAID will support efforts of Panama's Geographic Information Institute National Committee to develop a network of data sources and compatible equipment. MARENA has already procured some LANDSAT imagery and will do so again in 1995 and 1998. Under a grant financed by MARENA, TNC will provide additional technical assistance in Geographic Information System technology. USAID/Panama will also work with the Regional Mission in Guatemala to coordinate/share information on the Central American Biological Corridor.

7. Facilitate improved access to networks of information on diversity that exist in the U.S.:

To be accomplished as part of the Mission's activities with TNC under MARENA.

8. Support the institutional strengthening of governmental and nongovernmental organizations that have as their responsibility the administration and management of biodiversity:

See items 1 and 4 above regarding support to INRENARE and NGOs. The Mission has provided direct assistance to ANCON, the leading environmental NGO in Panama, to strengthen its operations. In preparation for operation of the Trust Fund, MARENA financed training for 83 NGOs to strengthen their operational and technical

skills. This training continues.

9. Support the elaboration and development of educational programs, formal and informal, related to the environment and sustainable development:

Support will be financed by the Trust Fund discussed above and through direct training assistance to INRENARE. The Smithsonian also carries out training as do several NGOs with previous assistance from USAID. The Government of Japan has signed an agreement with INRENARE to develop a training center for environmental education.

10. Obtain the support of the IFIs for the development of natural resources and biodiversity:

The Mission coordinates with the Inter-American Development Bank through both scheduled, monthly meetings and ad hoc meetings as required. We communicate frequently with the World Bank on their activities in this and other areas. A result of our coordination was the IDB's funding of the general and regional development plans in the Canal Areas which include a Watershed Management Plan. That plan will be developed based on a watershed strategy prepared by USAID and the GOP using the services of the Bureau of Land Management.

11. Give training to professionals interested in the conservation of biodiversity and management of Natural Resources:

MARENA is supporting such training as part of the development of INRENARE. Additional training will be provided through the Trust Fund to the private sector.

12. Support the development and implementation of forest fire prevention programs:

Through the Sister Forest Program, the Texas Department of Forests and Grasslands has conducted a one week training program in fire fighting and, together with USAID, donated equipment to assist trained personnel to carry out fire containment actions. This is a continuing relationship.

13. Work with the Central American Countries in the analysis of national policies that effect natural resources:

The Regional Mission in Guatemala has taken the lead in analyzing national policies. USAID/Panama will collaborate with that Mission to carry out activities in this area.

14. Support national programs of reforestation and forestry management:

The Trust Fund will award grants for reforestation in the parks, watersheds and buffer zones. While Forestry Management is not a direct component of MARENA, some technical assistance in that area will be provided. Limited assistance was provided in the drafting of a forest incentives law that provides very lucrative tax breaks for agroforestry and is expected to result in significant reforestation activities. In addition, the Peace Corps is carrying out programs with the goal of reforesting 6,000 hectares.

15. Develop associations between the U.S. National Forests and the Central American Counterparts:

A Sister Forestry Relationship has been established with the Texas Department of Forests and Grasslands.

16. Support a monitoring system to monitor deforestation, to develop forestry inventories, monitor costal zones, land use, and marine currents and climate:

MARENA is financing the installation of GIS and other technologies in the GOP to monitor deforestation/forestry inventories and the effectiveness of park/reserve protection measures. Direct assistance is not contemplated at this time for the remaining areas mentioned above, although, some of MARENA's resources, particularly training, will benefit them.

16a. Provide training on the analysis of satellite information and support the establishment of networks for satellite images in Central America and the United States:

See paragraphs 6 and 16 above. (Note that it would be beneficial if the USGS would provide imagery at reduced costs in response to the Summit.)

17. Support the development of improved methodologies and pilot activities in the management of buffer zones of protected areas:

This is an important purpose of the Trust Fund. Improved methodologies/pilot activities will be sought as part of the grant review/approval process under the Fund. Work will be coordinated as practical with regional organizations such as the Regional Mission in Guatemala and CATIE to improve the methodologies and to share information, experiences.

18. Support regional programs that investigate the global changes in biodiversity:

USAID/Panama will support the efforts of the Regional Mission and the Central Bureaus in this area.

Central American Government Activities

Under the section on Central American Governments, the Mission is supporting the following specific activities that complement the above:

4. Establish and develop a national system of protected areas to consolidate the biological corridor:

USAID is encouraging the establishment of additional protected areas in the Canal Watershed and, as discussed above, is assisting INRENARE to better carry out its responsibilities.

6. Guaranty the protection and management of the priority reserves and protected areas including the wetlands:

The principal objective of both MARENA and the Trust Fund is to insure the protection and management of vital environmental areas in Panama.

II. Energy

Due to resource constraints, energy is not included in the Mission's Strategic Plan. The IDB is providing some assistance in this area.

III. Environmental Legislation:

1. Support the Governments of Central America in order to:

a. Establish a Central American network of experts in environment legislation:

b. Establish regional institutional network that cooperates in the application and compliance with environmental legislation.

c. Develop environmental norms to improve the use and management of pesticides and gradual elimination of leaded gas.

d. Create the capacity to administer these organizations.

e. Strengthen the application and compliance with environmental laws, including training, institutional strengthening, etc.

f. Prepare an analysis and law for the energy sector.

With the exception of paragraph e, all of the above activities are regional in nature. USAID will support the regional programs designed to address those issues. MARENA is providing support for the activities listed in paragraph e.

2. Work with CA countries on information mechanisms and import controls for pesticides.

This a regional activity which the Mission will support.

3. Consider the possibility of promoting assistance for the effective application of legislation relative to other matters of the Alliance for Sustainable Development.

The Mission will consider this possibility as opportunities develop during the implementation of its total program.

IV. Sustainable Economic Development

3. Continue the dialogue to identify possible innovative mechanisms for financing sustainable development activities.

USAID/Panama, the GOP and the TNC have established the Trust Fund to provide a source of financial support, in perpetuity, for conservation, environmental and sustainable activities. This is the first Trust Fund of its kind for the Agency because it used appropriated dollar funding.

4. Assure that USAID's regional and bilateral programs support the objectives of the Alliance.

The Mission, through its monitoring efforts, will assure that both bilateral and regional programs carried out in Panama support the objectives of the Alliance.

Summit Principle: Promoting Prosperity Through Economic Integration and Free Trade.

Mission activities which support this principle are described below. Due to a combination of having achieved objectives and a reduction of resources, the Panama program will phase out of the economic/trade area over the next year.

<u>Free Trade in the Americas:</u>

The Mission has supported Panama's movement toward free trade since USAID returned after Operation Just Cause. With assistance from the IFIs, we encouraged the GOP in its elimination of 600 specific tariffs, reduction of ad valorem tariffs and change in orientation from protection to more open trade. USAID recently assisted the GOP in the drafting of a "Free Competition Law" that will establish laws covering anti-trust, anti-dumping and consumer protection. The Mission provided many of the analytical tools and baseline studies that the GOP is utilizing to gain accession into GATT. The current GOP fully supports GATT/WTO accession but faces stiff resistance from entrenched interest groups. Through assistance

provided to a business association, the Mission has supported efforts to educate the business community on the merits of GATT.

Tourism:

The Mission's Trade and Investment Project financed technical assistance to draft a tourism incentives law which was recently passed by the National Assembly. Panama's undeveloped tourism industry has the potential to replace the lost income and jobs resulting from the departure of U.S. troops under the Canal treaties. The Mission will continue to provide assistance in the implementation of the law and in the development of strategies to promote tourism.

Summit Principle: Eradicating Poverty and Discrimination in Our Hemisphere:

Strengthening the Role of Women in Society

A PVO support project, now in the design phase, will support civic education for women to increase knowledge of their legal rights. Expected authorization is 1996. In addition, all of the Mission's on-going projects include the promotion of women in society as an operating objective. Women candidates are targeted in all of our training programs.

Encouraging Microenterprises and Small Business

USAID/Panama technical assistance to a local Commercial Bank supports its micro and small enterprise loan program. The assistance is provided through ADEMI, a well known PVO from the Dominican Republic which has excellent experience in this area. In three years, the Bank has provided 4,450 loans totalling $9.5 million. All capital has been provided by the Commercial Bank with technical assistance focusing on client development, analysis and procedures.

Options for Assistance in the Canal and Reverted Areas

I. PURPOSE: This document reviews options concerning USAID's future role in: (1) the transfer of the Panama Canal to Panama on December 31, 1999; and (2) the reversion of military bases and canal properties to Panama over the period to December 1999.

II. BACKGROUND: As part of the Panama Canal Treaties of 1977, two separate but related actions are to occur:

(1) the actual transfer of Canal ownership and operations to Panama on December 31, 1999; and

(2) the completed reversion of U.S. military bases/canal properties to Panama on or before that date.

The Economic Policy Development Project (525-0313) supports GOP preparations for both the transfer and the reversion. The project is currently scheduled to conclude on September 30, 1996. Extension of the PACD and increased funding will enable USAID to assist the GOP to the year 2000.

III. DISCUSSION

A. Transfer of Canal Management and Operations

The smooth transfer and efficient post-year 2000 operation of the Panama Canal is in the interest of the United States, Panama, other major trading countries, and the maritime industry. Over 12,000 ships and 160 million tons of cargo transit the Canal each year at significant savings in time and money over the alternative sea route around the Horn. The Canal directly accounts for 8 to 10 percent of Panama's GDP and employs over 8,000 workers. A problematic transfer or unreliable canal operation after the year 2000 would result in serious disruption to world trade, higher prices to U.S. consumers, and serious economic problems for Panama. Recognizing the economic importance of a successful transfer, the Economic Policy Development Project includes a Canal Support Component.

To date, the project has provided technical assistance for the Presidential Commission on Canal Affairs. This addressed specific issues pertaining to the constitutional title (article) creating the Panama Canal Authority (ACP). USAID assisted with the drafting of the ACP's enabling legislation. USAID also supported preparation of the GOP Canal Transition Plan.

Three options for future USAID assistance are as follows:

Option 1: Passive Role. USAID provides no direct support or assistance to the transfer process beyond that already committed.

Pros:

- Management of the Canal's transfer to Panama is largely the responsibility of the GOP and Panama Canal Commission (PCC), although the United States Ambassador to Panama has full responsibility for coordinating the transfer of those functions that are to be assumed by the GOP pursuant to the treaties. The treaties did not envision or provide a role for USAID.

- In the event that there are problems or delays with the transfer attributable to inadequate strategic planning or execution of the implementation plan, USAID would not be faulted.

Cons:

- The orderly and timely transfer of the Canal to Panama is in the best interest of the United States, Panama, and world commerce, particularly the maritime industry. The stakes are too high for a hands off planning process and management approach.

- Failure to support the Canal transfer could be construed as a reluctance on the part of the USG to comply with the spirit of the Treaties.

Option 2: Proactive Role. USAID participates directly and extensively in the transfer process, providing short-term advisor(s) to the transition entity the Panama Canal Authority .

Pros:

- Enhanced prospects that potential problems, delays, or bottlenecks are addressed in a timely manner.

- USAID direct involvement would provide the USG with special insights into the process through a collaborative and technical role.

Cons:

- Panama may consider a highly visible USAID role as an infringement on its sovereignty.

- The financial costs associated with USAID's participation would be high and would require additional USPSC staffing.

- The PCC may not welcome extensive USAID participation in a complex and politically sensitive process.

Option 3: Facilitator Role. USAID continues providing technical assistance and limited commodities to the ACP in support of its operations, all the while assuming a low profile.

Pros:

- This approach should appeal to the GOP. USAID participation would enable the GOP to acquire expert services and specialized commodities to which it does not have ready access. This would contribute to a collaborative working relationship and help neutralize sensitive issues.

- Both the USG and the GOP would be in a better position to focus on a number of pending issues pertaining to the transition plan.

- In its facilitator role USAID could promote the increased participation of the multi-lateral development banks in the transfer process.

- USAID financial exposure would be minimized as tolls collected by the GOP defray principal costs.

Cons:

- The facilitator role is management intensive.

- The level of U.S. assistance would not guarantee the necessary and sufficient conditions for a smooth transfer.

- GOP demand for assistance could exceed available funding.

Recommendation:

We recommend the Third Option. It is in the best interest of United States foreign and commercial policy that the Canal transfer proceed in an orderly and timely manner. Based on the above discussion of options and their probable consequences, the preferred course of action should allow USAID to support the GOP while avoiding political controversy. For this reason, the facilitator option is most attractive in terms of visibility and coverage. The appropriate source of funding for the activities envisioned under this option is the Economic Policy Development Project, as amended.

USAID would provide support for the implementation of the Transition Plan which was originally developed with USAID funded technical assistance. The plan identifies the sequence of actions required for a smooth transfer. It also establishes time lines for each action. Short to medium-term consultants would be available to assist in the development of the ACP's enabling legislation, the preparation of management systems, and revisions to the transition plan, as needed.

The following is an illustrative list of prospective activities that would be eligible for USAID support under the facilitator

option proposed here:

- Organizational/Personnel Studies Assistance in the development of a personnel system that meets the immediate requirements of the evolving Canal organization, maintains the current merit system, and replaces some requirements that are unique to USG operations. Prospective topics might include, but would not be limited to the following:

  - Adoption of the PCC personnel system to ACP requirements
  - Transition strategy for a Panamanian labor force
  - Employee retention program
  - Planning the succession
  - Compensation, training and development systems
  - Functional organization of the Canal.
  - Establishment of a labor relations management program
  - Establishment of employee appeal procedures

- Assistance in reconciling current and proposed budget and accounting systems*

  - Financial accounting
  - Budget procedures
  - Audit system
  - Treasury functions

  * Assistance for this undertaking may be available from USAID's Financial Management Reform Project (525-0306).

- Assistance with the identification and installation of a modern, transparent procurement system.

  - Evaluation of alternative procurement systems. The analysis would consider, evaluate, and compare the system currently used by the PCC, the GOP's system, or a system utilized by a large private firm or well managed public utility.
  - Assist with the selected system's installation.

- Limited start-up assistance for the transition entity; i.e., organizational development, computer support, excess property.

B. Reverted Areas and Properties

When the reversion of the military bases and other canal properties is completed in 1999, Panama will have received airfields, ports, recreation facilities, over 5,000 buildings ranging from airplane hangars to housing and about 75,000 acres of prime real estate.

However, Panama will forego nearly $500 million of income (4 to 5 percent of GDP) from military spending and 5,000 jobs.

If the reverted areas are used to promote creation of productive enterprises, this could offset foregone income and employment. If not, reverted properties will become a burden due to the cost of security and maintenance.

Under the auspices of the Economic Policy Development Project, USAID has provided limited assistance to the Presidential Commission on management of the reversion process. USAID also helped the Interoceanic Regional Authority (ARI) acquire Geographic Information System (GIS) capability to help it manage and market reverted properties.

The project assisted ARI with preparation of specifications for Ft. Amador's development as a tourist area. USAID is committed to providing additional computer capacity for the GIS and to providing occasional technical assistance in the form of oversight of the firm selected to execute the Ft. Amador plan.

As with the Canal transfer process, there are three options for USAID assistance for the reverted areas:

Option 1: Passive Role. No support or assistance provided beyond that already committed.

Pros:

- Panama's management and marketing of the reverted areas is its own responsibility.
- USAID resources are increasingly limited.

Cons:

- If properties and territories are not reverted in an orderly and timely manner, it could destabilize the internal economic and political situation and jeopardize the future management of the canal.
- At a minimum, delayed use of reverted areas will be a burden on the GOP budget due to property maintenance costs.

Option 2: Proactive Role. Up-front USAID involvement in issues related to the transfer of reverted areas and properties.

Pros:

- Substantial participation as key decisions are formulated.
- Direct involvement could expedite the transfer process and better insure productive use of the properties.

Cons:

- GOP may resent a substantive USG presence in the process.
- USAID funding and management requirements would increase substantially.
- USAID would share responsibility if the reversion process does not go well.

Option 3: Facilitator Role. Continued assistance supportive of the GOP's strategic planning, management and marketing of the reverted areas.

Pros:

- Approach would be more responsive to Panamanian sensitivities.
- Approach would be consistent with current USAID program and relationships.
- USAID involvement would be limited to a support role. Final responsibility for the outcome would be Panamanian.
- The Inter-American Bank (BID) and other donors could take the lead.

Cons:

- Available funding may not be adequate to finance anticipated assistance needs.
- BID and other donor constraints may preclude a timely response.

Recommendation:

We recommend the Third Option. USAID can play an important and supportive role in the management and marketing of the reverted areas and properties. Many of the decisions regarding the use of the reverted areas should have already occurred and others need to be made in the next two to three years to insure a smooth process. Timely assistance to the GOP and private sector could help identify and quantify the effects of prospective transfers in the reverted areas.

The preferred option recognizes Panamanian political sensitivities and, based on that recognition, would continue a working relationship consistent with the country's development needs. In this context, the facilitator role option is most appropriate. USAID anticipates requests for technical expertise in real estate development and management. GOP may also request various short-term consultants with expertise in specialized fields such as legal

and data base management. There would also be a need for utilization and feasibility studies for specific US military facilities and other Canal properties. Once a contract is executed for the preparation of a Master Plan for Use of the Reverted Areas and Properties, additional Geographic Information System equipment will be required. USAID has had extensive experience assisting developing countries with the procurement and use of Geographic Information System equipment.

USAID has indicated its willingness to consider using existing funding for feasibility studies to identify potential sites in the reverted areas for development as international research centers. This would support the President of Panama's vision of creating a "City of Knowledge" education-research complex to attract students and scholars from around the world with long term support from private industry as well as from foreign governments and international financial institutions. The initiative is still in the conceptual stage. GOP efforts promoting it have consisted largely of marshalling public support and soliciting international financing to develop initial terms of reference for proposed feasibility studies.

TRANSITION PLAN FOR THE PANAMA CANAL TRANSFER

EXECUTIVE SUMMARY

The Panama Canal will be transferred from the United States to Panama at noon on December 31, 1999. A strategy and a plan for the transition is therefore needed to assure that a **gradual** transition will take place, that the transfer will not affect the Canal's operations or its customers, and that, once transferred, the adaptation and integration of the new administration will be rapid.

Both governments have begun to consider some of the transition details involved in the transfer of the Canal. The Panamanian government established a Presidential Commission on Canal Affairs to identify options for the Panamanian organization that will run the Canal and to develop an overall plan for the transition. Concurrently, the Panama Canal Commission conducted and recently completed a Congressionally (US) mandated study that has looked at the governance structure of the PCC and has recommended appropriate changes intended to make the transition easier. As the transfer date approaches, both the Panamanian and US governments will have to agree on certain details of the transfer that are not spelled out in the Treaties but which are essential for the future effectiveness of the new organization.

This document identifies some of these issues and recommends a framework for the new Panamanian organization that will operate the Canal (The Panama Canal Authority - PCA) based on a Constitutional revision that was presented to President Endara at the end of June 1993 and approved by the National Assembly in December 1993. The Plan includes and represents an effort to better define:

1. The mission and role of the Transition Commission,
2. Future policies that Panama may adopt in managing the Canal,
3. Actions and steps which must be taken by both governments to implement the new policies, and
4. The structure of the new Canal entity, the PCA.

The purpose of this document is to present a proposal for the transition process and a transition plan that will assure a smooth and seamless transfer. The key principles that are presented in this document for transition planning and the Transition Plan should be reviewed, refined and endorsed by both governments. The adopted plan should then form the basis for a joint Panama/US transition effort using the instrumentalities and agencies that are mentioned herein and others which the two governments may designate.

The basic underlying strategy for the transition is to **minimize changes on the transfer date.** This means that certain actions need to be taken to achieve **gradual** change during the transition period 1994-1999. Based on this strategy, the Plan analyzes options for a decision-making framework and prioritizes the issues and steps that are required during the transition period.

Transition Phases

Required changes associated with the transfer of the Canal can be grouped into the following four phases:

I. Legal and Planning Phase
II. Policy and Strategy Phase
III. Organizational Phase, and
IV. Administrative Phase

Some issues that do not require a decision until the final phase, however, must still be considered early in accordance with an overall schedule of critical events. Therefore, the four phases need to be carried out concurrently to allow for orderly consideration of options and timely decision-making.

First Phase: This phase began with the establishment of the Presidential Commission for Canal Matters, established by President Endara to define the new organization to manage the Canal. All the legal changes required to create an organization with the necessary authority and the desired autonomy and independence will be defined as well as the relationship of the Canal organization to the President of the Republic. This phase requires the approval of the President as well as the National Assembly.

Second Phase: This phase commences with this document, which proposes the establishment of a **Transition Commission** responsible for managing, on behalf of the Government of Panama, all matters relating to the transition, such as the analysis of options and definition of transition policies. At the same time this Commission will continue the efforts of obtaining the necessary legal changes. The Transition Commission will exist only until the permanent organization, the **Panama Canal Authority (PCA)**, is established which will then assume total responsibility for executing the transition plan. In order to maintain the momentum which has been developed to date, each phase should be implemented efficiently and without delay.

Third Phase: This phase will begin when the PCA is created and its Board of Directors installed. During this phase, the new Board will select the Administrator, and through him/her, direct the transition activities, strategic direction, and policies of the new organization.

Fourth Phase: During this phase, required adjustments in the administrative systems of the Canal will be finalized. These should be implemented by the Canal's management team under the oversight of top management consistent with the mission and objectives defined by the Board of Directors.

It is anticipated that some changes in the organizational and administrative systems can be implemented on, or after the transfer date. However, the planning and training of personnel utilizing these systems should be done prior to the transfer date. Additionally, although the planning for some of these changes should precede the naming of the new Board of Directors

of the PCA (for example, the preparation of an employee retention plan), it is preferable that critical decisions regarding some of these issues be held until the new Board and leadership are designated. When legal requirements and operational needs permit, decisions regarding changes in administrative systems and/or the organization that will occur during the transition period, (including hiring and promotions of high level personnel, major investment decisions, and other key decisions with post-transfer implications), these decisions should be coordinated between the Panamanian transition team and the PCC.

Table I summarizes the four transition phases, the areas to be addressed and the decision-making responsibility for each phase. Table I also indicates the date when each phase must be initiated and the latest date by which each phase should be completed to assure a seamless transfer for the Canal's users, and a Panamanian organization that is fully ready to assume operational control of the Canal on December 31, 1999. One can imagine that we are in a relay race, where each phase represents a runner that will pass the responsibility for the next phase to the next runner of his team in a fluid and efficient way.

TABLE I

TRANSITION PHASES				
Phase	Principal Objectives and Considerations	Responsibility	Start Date	End Date
I	Legal & Planning	President/ Natl Assembly/ Pres. Commission	1993	September 1994
II	Policy & Strategy	Transition Commission	1994	End of 1996
III	Organizational	PCA Board of Directors	1996	End of 1998
IV	Administrative	PCA/PCC	1996	Mid 1999

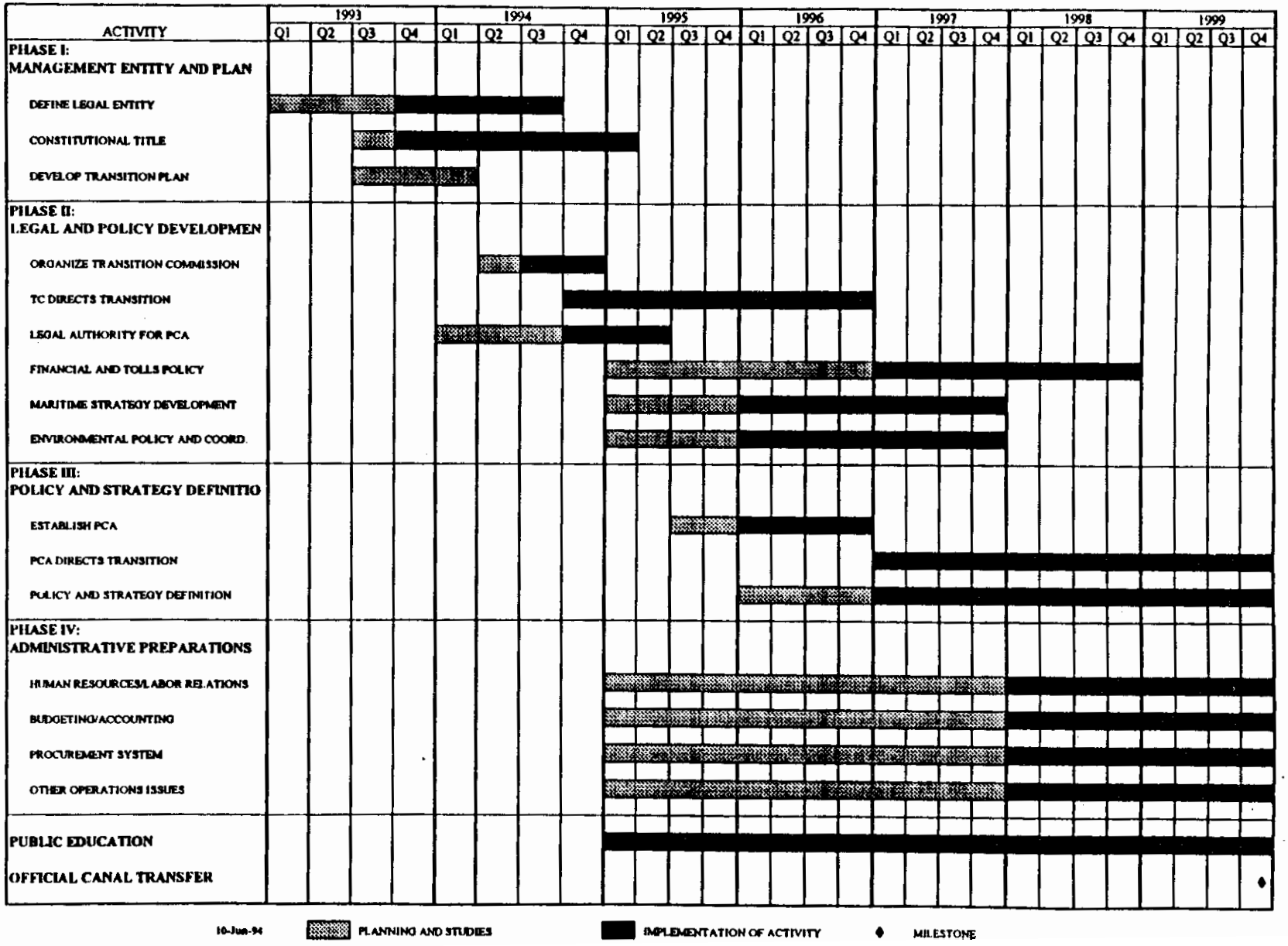
Figure 1 presents graphically the schedule of the four transition phases to and through the transfer date. The first objective, as illustrated in the figure, will be to define the legal changes required by September 1994, although certain changes may still require legislative approval after that date. Similarly, the next objective will be to define the government's strategy and policy with respect to the new Canal entity by the end of 1996. During the period 1996-1999, the new PCA and its leadership will coordinate the implementation of the plans prepared by the Transition Commission with the objective of defining or implementing the required organizational and administrative changes, where possible, prior to the date of transfer. Such implementation will be carried out in a coordinated fashion by the two countries using their respective agencies, the PCA and PCC.

TRANSITION PLAN FOR THE TRANSFER OF THE PANAMA CANAL

PRESIDENTIAL COMMISSION FOR CANAL AFFAIRS

FIGURE I

SCHEDULE OF THE TRANSITION PLAN PHASES



DECISION-MAKING AND COORDINATION DURING THE TRANSITION

In order to implement a process that culminates in a seamless transfer for the users of the Canal on December 31, 1999, the challenge to the governments of Panama and the US will be to design a **management and decision-making structure that will have the authority, and that will be responsible and held accountable for achieving a smooth transfer.**

Certain actions need to be taken during the transition period to accomplish a **gradual** change. Both governments want to achieve as much **policy continuity** as possible on the date of transfer. Therefore, it appears that the best approach is a joint Panama/US transition process, with clearly defined mechanisms for timely decision-making by the appropriate organization(s) and/or government(s).

COORDINATION FOR THE TRANSITION

Transition Commission and the Panama Canal Authority

Based on the above premises and conclusions, the Presidential Commission, composed of distinguished Panamanians, knowledgable in the subject, recommends that the President of the Republic create a Transition Commission. Primary considerations should be the qualities and professional experience necessary of its members, clearly assigning its responsibilities, and to providing it the authority required to carry out the transition work with political neutrality to serve the nation's best interests. This Commission will coordinate the process with the PCC and will work directly with the Administrator to harmonize its actions, seeking the maximum benefit for all groups that have an interest in the efficient operation of the Canal, particularly the Republic of Panama. To this end, we recommend the following:

1. As soon as possible, through Presidential Decree, establish a Transition Commission consisting of 3 to 5 members with sufficient authority to permit them to make decisions on behalf of the Government of Panama, to report directly to the President of Panama, and to assume full responsibility for administering Panama's transition process.

2. As soon as possible, and no later than 1996, that the necessary effort be made to complete the legal steps required to establish the Board of Directors of the PCA. When the Board of the PCA is installed, it will have to ratify the actions already taken by the Transition Commission. The Transition Commission will continue to function, in a technical support role, as long as the PCA Board considers it necessary.

3. That, as the transfer approaches, the PCA supervise all planning for the transition and develop necessary mechanisms to coordinate those decisions that have post-transfer implications with the PCC. The PCA may obtain the help of independent consultants when special experience or independent opinions are required.

Notes:

In order to achieve coordination and continuity, it is advisable that the Transition Commission include representatives selected from the current PCC Board of Directors, the existing Presidential Commission, the Directors of ARI, and/or the Consultative Committee. Likewise, it would be advisable that the PCA Board include members of the Transition Commission.

The Transition Commission will need a permanent administrative body, composed of at least four professionals dedicated to implementing the transition plan. The group should be headed by a Planning Director with extensive experience in strategic planning and administration. Also, it should include three experts: one in Financial Administration, one in Human Resources management, and one in economic Development and Marketing.

Panama Canal Commission

1. It is recognized that the Panama Canal Commission (PCC) carries out its transition operations in accordance with recommendations of the US Congress and through its own initiatives, and that the PCC is collaborating and coordinating with the government of the Republic of Panama through the Presidential Commission in a positive and increasing manner. It is, therefore, logical to assume that the Administration of the PCC, through appropriate means, will continue its efforts in this direction.

2. The PCC will continue working on the many tasks that are needed to comply with USG transition obligations as it has since the signing of the Treaties. Examples of special significance are the increase in the percentage of Panamanians in the work force, the training of the Panamanian component, and the dissolution of all USG obligations.

3. Although the PCC will retain the responsibility and authority in decision-making related to Canal operations until the transfer takes place, the PCC should participate in the planning and decision-making of actions that will affect activities after the transfer. This coordination should increase over time.

Possible Joint-Action Areas

(For the consideration of both governments)

The Transition Commission will submit to the President of the Republic and through him to the Legislature trimester reports on transition progress, including actions, changes, and/or organizational matters necessary to assure a gradual and seamless transition.

These reports will highlight actions required by the Government of Panama through the Transition Commission and other State agencies. A copy of these reports should be provided to the PCC, through the President of the Board of the PCA, with the objective of resolving the majority of issues at the Administrator level of the PCC and the PCA.

Issues which, according to the Treaties and associated agreements must be handled through diplomatic channels, will be placed in the hands of the President of Panama.

Cost of the Transition

It is our opinion that the "transition" is a bi-national obligation established under the Treaties. Actions required to accomplish the transition should be considered as a cost of operation of the Panama Canal.

LEGAL AND PLANNING PHASE

The highest short-term priorities in this phase are the approval of the Constitutional Title establishing the new entity to manage the Canal, the approval of the transition plan and the establishment of legal authority for the new organization. It is important that this legal authority be in force in a timely manner. This will enable the goal of establishing the PCA Board of Directors by 1997 to be met, so as to assure a smooth and seamless transfer on December 31, 1999. This schedule will allow actions to be taken on critical transition aspects, such as:

1. Approval of a Plan of Succession or the extension of key management, including the selection of the top management team (Chief Executive Officer, Chief Financial Officer, and Chief Administrative Officer) well before the transfer date.

2. Approval of negotiated labor agreements that will go into effect after the transfer date in order to assure harmonious labor relations after the transfer.

3. Evaluation of personnel retirement plans and approval of an Employee Retention Plan to assure that required qualified personnel are available after the transfer.

4. Approval of procurements with long execution lead times (which could be effective long after their approval and beyond the transfer date).

5. Approval of the FY2000 budget and preliminary budgets for FY2001 and 2002 (the budget preparation cycle of the PCC begins nearly three years before the effective date).

STRATEGIC AND POLICY PHASE

There are strategic management areas that may require modification and that need special attention in order to faithfully comply with the spirit of the Treaties and to satisfy the central objectives of the two nations. These are: (1) financial management, (2) economic development, and (3) environmental management. The financial management issues are particularly critical.

Financial Management Structure

- We recommend that the current financial and operating structure be maintained.

- A long-term (5 years) Financial Plan should be prepared beginning in early 1997, as a basis for determining the long-term capital requirements of the PCA in the early years after the transfer (years 2000, 2001, 2002).

- This previous step will establish if the PCA will have liquid assets that can be used for working capital for the operation of the Canal as of January 1, 2000. It has been suggested that the Canal should possess a reserve of sixty days to cover operating costs and unforeseen contingencies as of the transfer date. The Transition Commission or the new PCA should decide which combination of working capital and risk management they prefer, based on the results of a study that has been recommended to be jointly carried out with the PCC in 1996-1997.

Note: In the opinion of the PCC Finance Office, this reserve is not necessary but, due to the importance of this question, it should be carefully analyzed.

- It is appropriate to maintain the present full cost recovery policy and toll rate structure during the early years of the Canal's operation by the Panama Canal Authority until:

  1) Panama has considered its economic development objectives associated with the Canal;
  2) Toll policy studies can provide adequate direction to the PCA; and
  3) The necessary experience is gained in using the criteria to interpret the best interests of the country and the users.

Role of the Canal in National Economic Development Strategy

- The transfer of the Canal represents a unique opportunity for the Canal to potentially become a key element of Panama's economic development strategy. Panama must promote and attract new businesses to replace employment that will be lost as a result of the closure of US military installations. While the Canal cannot itself directly produce more jobs than it currently generates, jointly with the ARI we can promote private sector activities which replace the lost employment.

- A key transition issue concerns the role the Canal should play in the emerging national maritime strategy. Planning for such a broad development strategy goes well beyond the immediate issues associated with the transfer of control of the Canal, except that it impacts other Canal transfer issues, such as the financial and tolls policies, Canal marketing strategy, etc. As a first step, the government of Panama should adopt an approach for developing and implementing a maritime strategy, outside of the immediate need to consider Canal transfer issues. The leadership for the development of this concept can be located within the Ministry (MIPPE) responsible for overall economic development strategy. The Transition Commission and eventually the PCA should participate and assist in this process once the government initiates the process.

- A system should be established to regularly distribute information on the maritime sector in Panama to interested sectors, including the Canal. This is difficult now because each sector operates independently of the others in separate government ministries. Ship Registry, for example, is under the Ministry of Treasury and Finance, while ports (APN) are included in the Ministry of Commerce and Industry. The Ministries of Foreign Affairs as well as Government and Justice are also involved with the Maritime sector. With the transfer of the Canal, it is necessary to rethink this whole issue given its significant importance to the Republic.

Environmental Policy

- The Government of Panama is currently considering environmental decrees to safeguard the Canal and its area of operations. It is of great importance that this major national effort continue to be coordinated and monitored and that the process already initiated be continued. Initially, the PCA should base its environmental regulations on the existing laws, regulations and operating practices of the PCC, including those relating to transport of dangerous cargo.

- A clear institutional context in Panamanian law and a National Environmental Policy will be required to support the coordination among the groups already organized and to take advantage of the efforts currently underway.

- It is important that the GOP continue the initiatives begun by ARI, INRENARE, the Ministry of Planning, IRHE, IDAAN, IPAT, and by the Ministry of Agricultural Development to define an institutional context and develop the policies necessary for watershed protection, conservation, and management. Additionally, criteria and norms need to be established for environmental evaluation and measures adopted regarding proposals for the use/development of natural resources. The Transition Commission and PCA should participate in this process to help maintain the momentum achieved by all the non-governmental organizations that are currently involved in preservation of the watershed.

ORGANIZATIONAL PHASE

Beginning in early 1996, the Transition Commission and PCC should undertake an **organizational review study** which would not only analyze the functions that would no longer be necessary, due to the elimination of US government requirements, but also determine how the organization must change to adjust to changes in the function or other Government of Panama requirements. The identification of key employees that will be eligible to retire prior to the transfer date will also influence organizational decisions. An **Employee Retention Plan** will be prepared as well to address incentives for retention of employees with essential skills who are eligible for retirement. These results, the Organizational Review and the Employee Retention Plan studies, will be integrated into the organizational structure that will take over the Canal operation on the transfer date.

ADMINISTRATIVE PHASE

The key areas of the administrative and support systems that may require adjustment and that need to be considered during the transition phase are Personnel and Labor Relations. Other changes will also be necessary relative to Budgeting, Accounting, and Procurement. Management Information Systems should also be given special attention and a determination made whether any changes are necessary.

Human Resources and Labor Relations

- The PCA should adopt the existing PCC personnel system, implementing an impartial appellate process for labor disputes, adopting the system of merit, and eliminating requirements that relate specifically to USG law that are not appropriate under the Constitutional Amendment or the organic law for the Canal.

- The Transition Commission should determine if additional training beyond the present extensive program will be required in the management and technical areas

associated with the Transition Plan, and the changes required to the organization related to the transfer (employee appellate process, management of the labor relations program, arbitrator training, etc.)

- The PCA organization must institute its own Labor Relations program to assure harmonious labor-management relations in compliance with the Constitutional Amendment and organic law, maintaining the current norms at all times.

- The PCA, jointly with the PCC, should develop a plan to establish how and when to negotiate new labor contracts.

BUDGET AND ACCOUNTING

- We recommend keeping the existing budget and accounting systems as they can be easily adopted to the requirements of Panama.

- The PCA should maintain the fiscal year presently in use by the PCC, thereby separating it from that which applies to the rest of the GOP. A continuation of the October 1-September 30 fiscal year is preferred. If adopted, the first operating budget for the PCA would be a bi-national budget prepared starting January 1998. The first three months of the budget would be administered by the PCC and the last nine by the PCA. There will be one continuous budget as a result. The budget for FY2001 will be approved by the Board of Directors of the PCA in 1999 and should,therefore, be developed jointly by the PCC and PCA.

- Panama and the United States must agree early in the transition process reference the exact disposition of all assets and liabilities on the date of transfer. The Canal Treaty is vague on this issue and does not provide detailed guidance on specific situations. Assets of the PCC that should be included in the negotiations are the funds accrued for future use, reserves for capital improvements, and reserves for marine accidents and casualty losses.

- In order to further the transition process, the PCA and PCC should agree that the PCC contract external auditors. The US Government Accounting Office (GAO) can begin to initiate a transition process by contracting out for the annual audit with an independent auditing firm, rather than doing the audits in-house. The firm selected should be required to conduct the audit using, not only personnel from the U.S., but colleagues from their local branch offices in Panama. The report from the PCC Board to the US Congress, prepared by Arthur Andersen, contained a similar recommendation.

- Rather than eliminating the Office of the Inspector General after the transfer, the office should simply be converted into an internal audit office, basically fulfilling

the same responsibilities that they presently have, but with their foundation in the laws of Panama, rather than those of the US.

This area should be the subject of careful study with the advice of the PCC.

Operations and Maintenance

- One of the most critical operational issues for the transition is to develop a system that is based primarily on the existing Federal Code of Regulations of the US. adapted to fit the Panamanian legal context. Most of the procurement system should remain as it exists in the PCC. This will require a study and a detailed adoption process.

- It is possible that the said study will indicate that the new procurement system should have greater flexibility, permitting the users within operations to develop closer, more cooperative relationships with critical suppliers. The procurement organization should assume a more aggressive role in marketing itself and seeking out potential suppliers, particularly for highly specialized equipment. All requirements for national preferences in procurement should be eliminated. Many aspects of the current PCC regulations will be irrelevant and can be eliminated.

- During the transition, relations with suppliers should be maintained to assure that critical goods and services continue to be supplied beyond the transfer.

- The other systems and practices that cover operations, maintenance, and improvements of the infrastructure of the Canal require little change on transfer. For the most part, the systems function well, serving the day-to-day operational needs of the Canal. It is recommended that the PCA adopt most of the systems and operational practices as they now exist, with only those minor changes required to be consistent with Panamanian law. However, some of the studies recommended on operational issues could result in requiring actions during the transition process. In particular, it is anticipated that a legal basis for navigation within Canal waters will need to be developed for application on December 31, 1999, or sooner if possible.

PUBLIC EDUCATION AND INFORMATION PROGRAM

- To complement and support the overall strategy of the transition, a **Communications Program** is proposed to inform and answer questions from the various groups involved in or affected by decisions during the transfer process. The Panamanian Transition Commission should include a staff member with responsibility for this program.

- In order to attain these objectives, a more detailed **Public Information Plan** should be prepared and updated periodically, to highlight critical steps in the process and to coordinate the communications effort with the PCC.

- The Transition Commission should maintain a close relationship with the PCC Public Affairs Office. The public information process will be coordinated with that office, particularly with regard to releases and publications aimed at Canal employees, the US media, and the international maritime community.

This recommendation is consistent with the plans and initiatives of the PCC.

IMPLEMENTATION RESPONSIBILITIES, SCHEDULE AND BUDGET

- Successful Implementation of this transition plan for the transfer of the Panama Canal will require accomplishing the steps and meeting the calendar milestones shown on the proposed Schedule for the Transition.

- It is estimated that the Transition Commission and its support staff will require an annual budget estimated at $1.6 million for transition management personnel. In addition, a number of studies and personnel, administrative, legal, coordination, and organizational actions are necessary, which will require additional outside resources and/or PCC assignment of personnel and resources. All of these costs must be budgeted for and funded. Preliminary estimates for the study efforts anticipated at this time total approximately $4.4 million over the six year transition period. The smooth transfer of the Canal on December 31, 1999 cannot be assured without adequate funding for the transition planning work.

- Although Panama and the United States of America are mutually responsible for the direction and coordination of the transition process, this draft plan, prepared by the Panamanian Presidential Commission, will be submitted formally to the President of the Republic of Panama.

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TRANSFER OF CONTROL OF THE PANAMA CANAL
DESCRIPTION OF SCHEDULE TASKS
(Refer to Chart for Schedule)

This list provides abbreviated descriptions of the tasks shown on the charts (pages 87-91) for the purpose providing insight into the issues involved. It is **not** all-inclusive, nor complete.

1: HUMAN RESOURCES ACTIONS

Adopt the PCC System:

The existing personnel system of the PCC will be modified as necessary and adopted by the Transition Entity and later by the new entity (PCA) once it is formed.

Establish Appellate Procedures:

Design an impartial review/mediation board and procedures by which employee appeals of management actions and decisions can be heard and differences resolved.

Develop Succession Plan:

For each position in which a vacancy is reasonably likely as a result of the transfer, or which is uniquely critical, describe how incumbents will be replaced, feeder positions for higher level positions, and formal and on-the-job training required to obtain a fully qualified replacement.

Succession Training:

Using the Succession Plan, assign the replacements and conduct the formal and on-the-job training

Employee Retention Program:

Survey employees regarding retirement or resignation, and develop plans to retain employees with key knowledge and skills.

Study/Approve Appellate System:

Determine the essential elements of an Appellate system. The system will be designed and approved by the Government of Panama.

Develop Arbitrator Regulations:

Regulations for the appellate system, selection of arbitrators, and conduct of the appeals process will be prepared and approved.

Make Organizational Changes:

The PCC organization will be modified as necessary to permit early implementation of the arbitration process and other necessary changes.

Conduct Compensation Study:

A compensation study will be done to identify market values and current costs of selected positions to serve as a base for design of compensation ranges.

Identify Key Retiree Candidates:

Identify those persons occupying key positions who will be eligible to retire on, or before the transfer date. Decide which of these to replace and which are wanted in the post-transfer organization.

Negotiate with Retirees:

For those persons identified for retention in the prior step, negotiate contracts for their employment in the PCA.

Train Core Appellate Staff:

Train the appropriate personnel staff members in the new appellate system.

2. LABOR RELATIONS ACTIONS

Establish a Labor Management Relations System:

Decide the major features, appropriate organization, and staffing for a new LMR system and the terms of reference for a study of system needs and design.

Contract for a Labor Relations Management Study:

Write and award a contract for the study.

Conduct the Labor Relations Management Study:

Supervise the study effort, review progress and direction.

Approve the Labor Relations Management Program:

Using the study results and the system developed in the steps above, approve the new labor management relations system and fund its operation.

Establish Regulations:

Write the implementing regulations for the new LMR system and obtain government approval by the USG and RP.

Change the PCC Organization:

Modify the PCC as necessary to implement the new LMR system and establishment of the successor employee associations.

Negotiate Labor Agreements:

With the new organization in place, the PCA will negotiate the post transfer labor agreements with the successor employee associations.

3: FINANCIAL POLICY ACTIONS

Prepare Study Terms of Reference:

Write the terms of reference and contract preparation for studies of financial management policies.

Conduct Financial Policy Studies:

Contract /conduct studies to determine recommended financial policies.

Financial Management Transition:

Overlay the new financial policies and procedures on the current PCC system and train and test their implementation over two annual cycles.

Organization/Operations Review:

Review organizational structure and operations to identify needed changes as a result of transfer.

Financial Policy Development:

Document the new system; enunciate, and formalize the new PCA financial policies.

Establish the Financial Structure:

Determine functional breakouts, position descriptions, recruit, staff, and begin operating as a parallel management system.

4: TOLLS POLICY ACTIONS

Conduct Tolls Studies:

Perform studies to determine alternative toll rates and related issues to evaluate the feasibility of linking toll rates to economic development, commodity value, and congestion costs.

Review/Set Tolls Policy:

Review tolls policy alternatives against expected outcomes, set new policies, and communicate them to clients.

5: FINANCE AND BUDGET ACTIONS

New Fiscal Year Approval:

Consider the current PCC and RP fiscal schedules and approve an PCA fiscal year to facilitate national fiscal programming.

Study the Working Capital Needs:

Determine what amount of working capital should be available to the PCA on the date of transfer and how much of that should be in cash.

Decide on the System to Fund the Working Capital Account:

The PCA needs to decide how to obtain the cash needed for the working capital.

Obtain Working Capital:

Once the decision is made on how much and how, the PCA must actually obtain the needed cash or credit.

Prepare Five Year Financial Plan:

The new PCA should have a five-year projection of revenues and expenses to include a capital expenditures plan. This should be updated annually.

Income Projections:

The PCC currently tracks and updates income projections regularly. This effort would continue through the transition period and these projections shared with the TC/PCA.

Budget Projection -2000:

The FY-2000 budget will need to be prepared using the system compatible with the RP system and forwarded to the PCA Board.

Management Review:

The PCA Board will review and approve the FY-2000 budget and forward to the National Assembly.

Approval of Budget:

The PCA Board approves the budget and forwards it to the National Assembly for its information.

Begin the Next Cycle:

The Planning, Programming, and Budgeting cycle is continuous. The PCC will need to begin the FY-2001 budget cycle by July 1999.

Chart of Accounts:

The new Chart of Accounts will have to be drafted and translated, and any new accounts required for operations under the RP system need to be created.

Revalue Fixed Assets:

The property, plant, and equipment need to be entered onto the financial statement of the PCA at current value and estimated (and depreciable) life. This re-valuation should be completed by the end of 1998 and parallel records maintained from then until the transfer.

Parallel Accounting System:

For the last year of operation, finance and accounting should be run on parallel systems to insure a fully operating PCA system prior to the shutdown of the PCC accounts.

Close Books, USG:

The final event of the PCC finance and accounting process will be to formally turn the assets over to the PCA and close the PCC books. The continuing closure actions of the USG in settling accounts, claims, etc would be handled by a separate USG agency.

Establish New Treasury Procedures:

While treasury functions can remain basically the same, some US procedures can be simplified, and new PCA procedures will have to be formed.

Establish PCA Checking Accounts:

The PCA will require their independent accounts to temporarily hold revenues, and to pay obligations of the PCA. Other, revolving and capital investment accounts may also be needed and might be maintained as investment type accounts.

Training:

The need to adopt to the new system will require a training regimen to insure employees understand and can operate it. Additionally the large number of US citizens planning to leave the Controller's office on or before the transfer exacerbates the need for training.

Contract External Auditors:

The TC/PCA should to develop agreements with qualified auditing firms well in advance of the transfer.

Create Internal Audit Office:

The Office of the IG now serves this function, and a portion of this office could be realigned to assume the post-transfer internal audit function.

Develop Audit Norms:

Standards and norms need to be established for internal audits.

Train Investigators:

Auditors and investigators need to be trained on the new norms and procedures.

Finish USG Investigations:

The PCA will need to cooperate with the USG as it concludes investigations underway prior to the time of transfer.

Evaluate MSA Software:

The software being used by the PCC since 1984 should be evaluated for suitability for continuation by the PCA.

Upgrade/Update MSA Software:

Any recommended updates/upgrades should be considered for implementation prior to the transfer.

6: PROCUREMENT ACTIONS

Define the Procurement System:

The current system should be modified to simplify and streamline it.

Draft New Regulations:

Once the new system is defined, it needs to be codified and internal instructions disseminated.

Design a Claims Dispute System:

An equitable and impartial system, similar to the current arbitration board is needed to settle disputes between the PCA and its contractors and suppliers.

Survey Suppliers:

The PCA must establish sources of supply and mutually agreeable payment terms prior to the transfer. Some current PCC sources will not be available to the PCA, but greater flexibility may exist in source and origin of goods.

Establish Supplier Communications:

Closer supplier relations, similar to the private sector industrial organization will help offset the loss of emergency transportation capability. The PCA must be assured of responsive sources for critical items.

Organizational Analysis:

The PCC procurement system relies on the larger USG supply base and a purchasing and shipping office in the US. Changes to the organization may be required to offset the loss of GSA procurement support. The US office viability needs to be determined.

MIS Analysis:

- The current system relies on communications systems, computers, and software that may need to be revised to better serve the PCA.

Organizational Changes:

Make procurement organizational changes so as to permit the new system to be staffed and operating with trained people prior to transfer.

MIS Changes:

Like the organization, the management system changes need to be incorporated early enough to allow the people to become familiar with them and to insure they perform as needed.

Start New Procurement System:

The entire new procurement system should be operational early enough to permit testing and revision as necessary.

7: MARKETING ACTIONS

Survey the Marine Sector:

Obtain industry views of market potential of maritime related services for shipping which transits the Canal.

Information System Integration:

Determine feasibility of integrating maritime related information systems to include ports, intermodal systems, merchant marine activities, etc.

Develop Maritime Center Concept:

Determine elements which should be included in a maritime "Service Center" based on market/cost feasibility assessments, and examine alternatives for implementation.

Implement Maritime Center:

Establish the legal base and organizational responsibilities for implementation of an integrated maritime development strategy.

8: PUBLIC EDUCATION ACTIONS

Prepare Information Plan:

Determine key steps for education of each of the effected target audiences and develop a plan for disseminating the information.

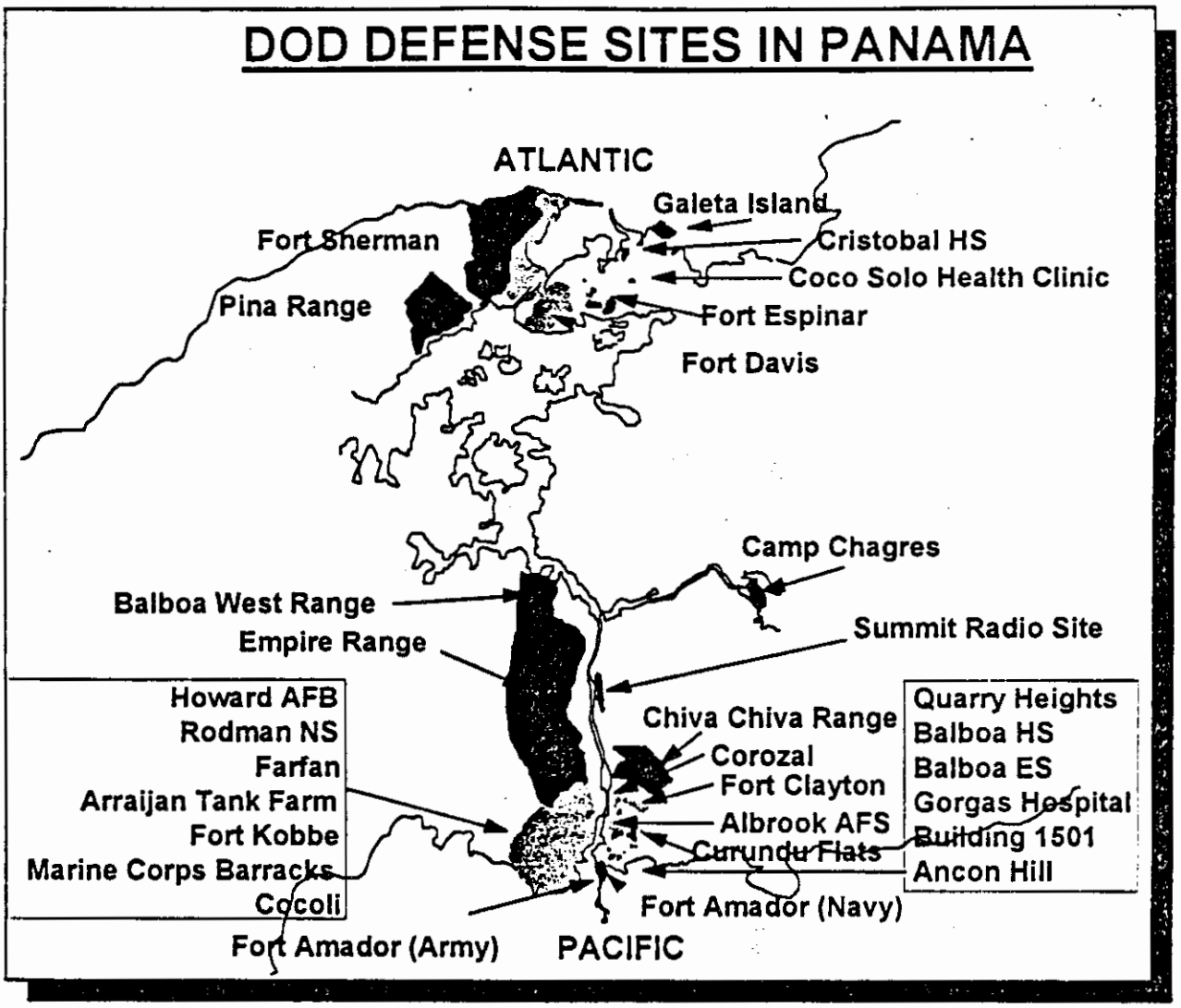
Conduct the Education Program:

In conjunction with other information services of the Government of Panama and the Public Affairs Office of the PCC, use various media forms to educate the target audiences.

DESCRIPTION OF THE DOD SITES

IN PANAMA

TO BE TRANSFERRED THROUGH 1999



10.8 square feet = 1 square meter
2.47 acres = 1 hectare

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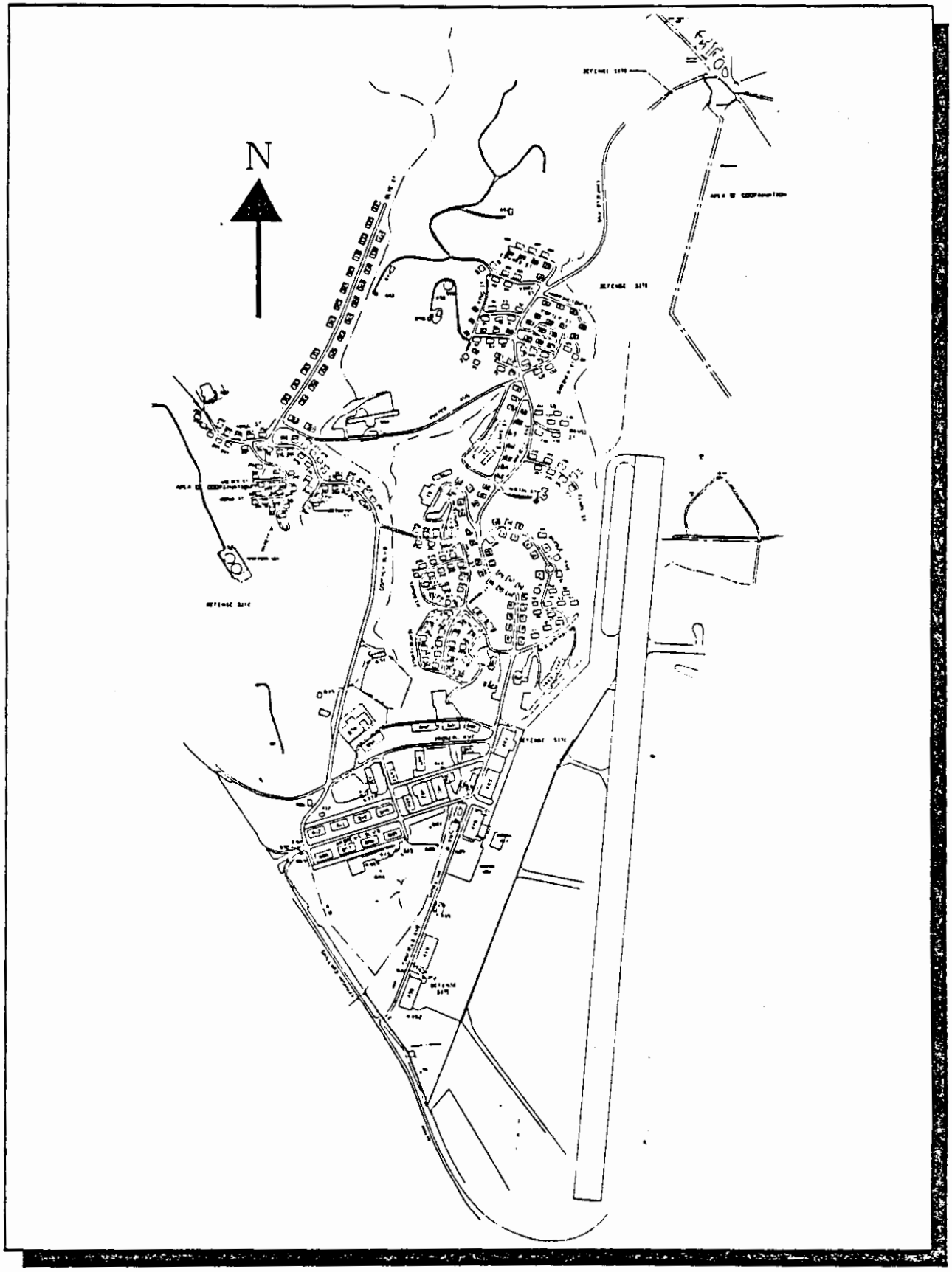
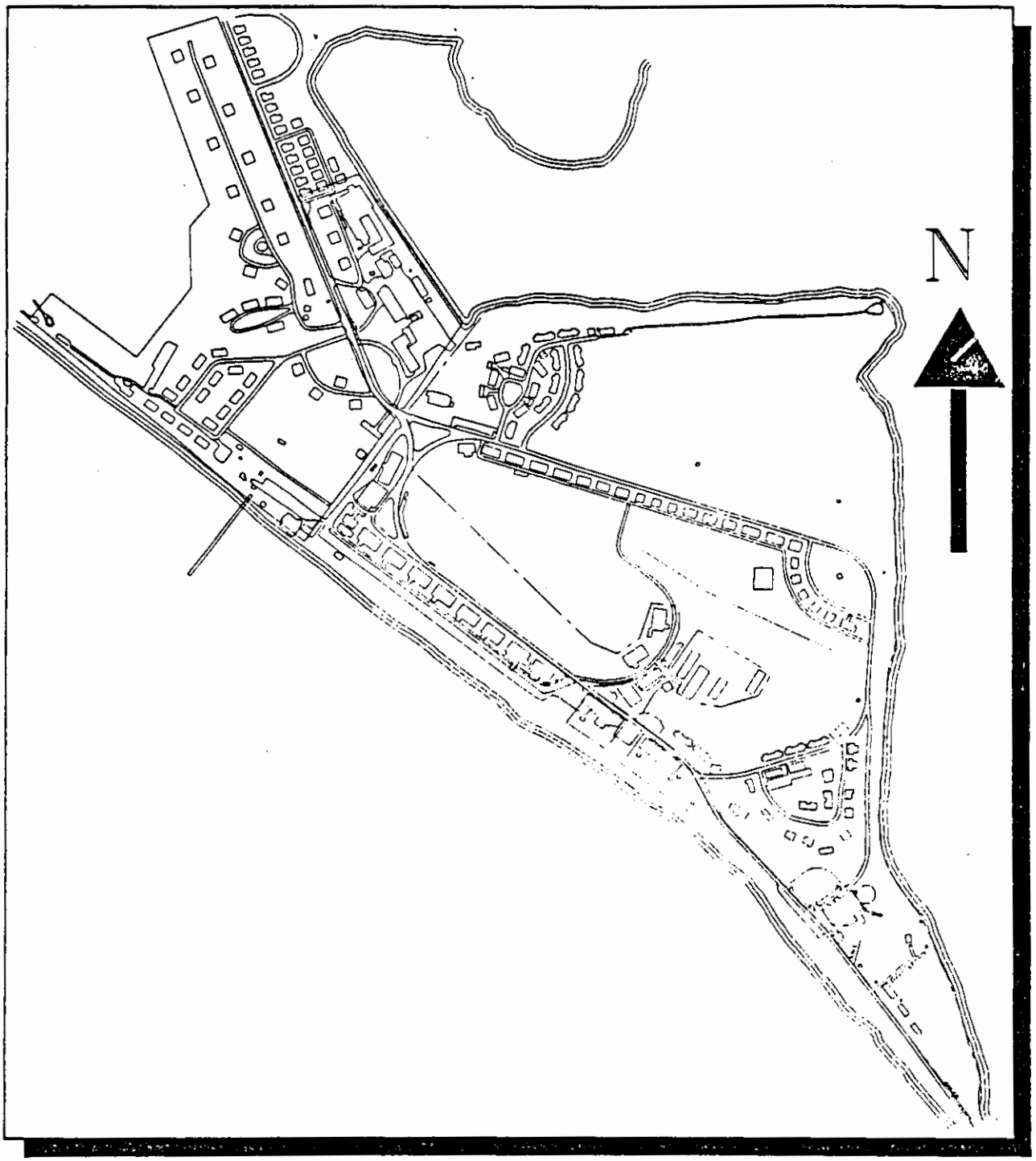


Albrook Air Force Station

Albrook Air Force Station
(769 acres)

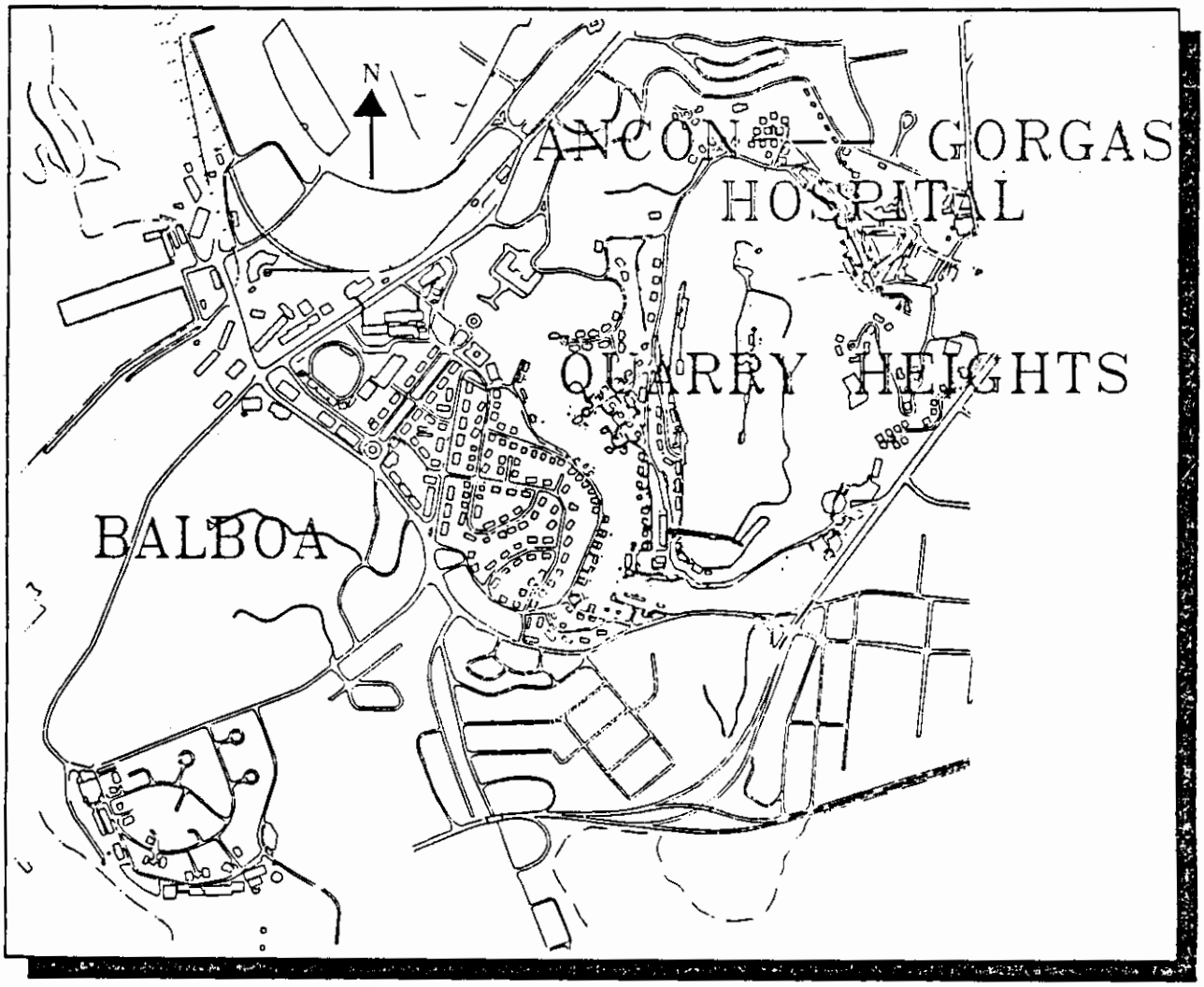
Facility	Building Number
Family Housing -- 468 units 194 duplexes and 80 single units; 36 four-bedroom, 241 three-bedroom, and 191 two-bedroom.	
Dormitories -- 710 persons	
Warehouses -- 30,197 square feet	
Community Club -- 400 person seating capacity and kitchen	13
Bowling Alley -- 8 lanes and fast food facilities	850
Pool -- 50 meters	849
Outdoor Recreation Areas	
Chapel	860
Post Office	446
Retail Stores	801-804, 850
Cafeteria -- 120 person seating capacity and kitchen	850
Stables	
Former School -- 57,423 square feet	861
Aircraft hangars and pavement now used for storage and helicopter operations	



Fort Amador

Fort Amador
(207 acres)

Facility	Building Number
Large Office Building Complex and Post Office	1220, 1226, 1204, 1214
Theater -- 500 person seating	121
Community Club -- 600 person seating capacity and kitchen	136
Family Housing -- 185 units 17 quadplexes, 42 duplexes, and 33 single units; 3 five-bedroom, 35 four-bedroom, 82-three bedroom, and 65 two-bedroom	
Dormitories -- 60 persons	
Golf Course and Club Snack Bar	
Pool -- 30 meters	1310
Gas Station with four lanes	53
Chapel	108
Outdoor Recreation Fields	
Warehouses -- 19,000 square feet	
Motel -- 6 suites	



Ancon -- Gorgas Hospital, Balboa, and Quarry Heights

Ancon -- Gorgas Hospital

(27 acres)

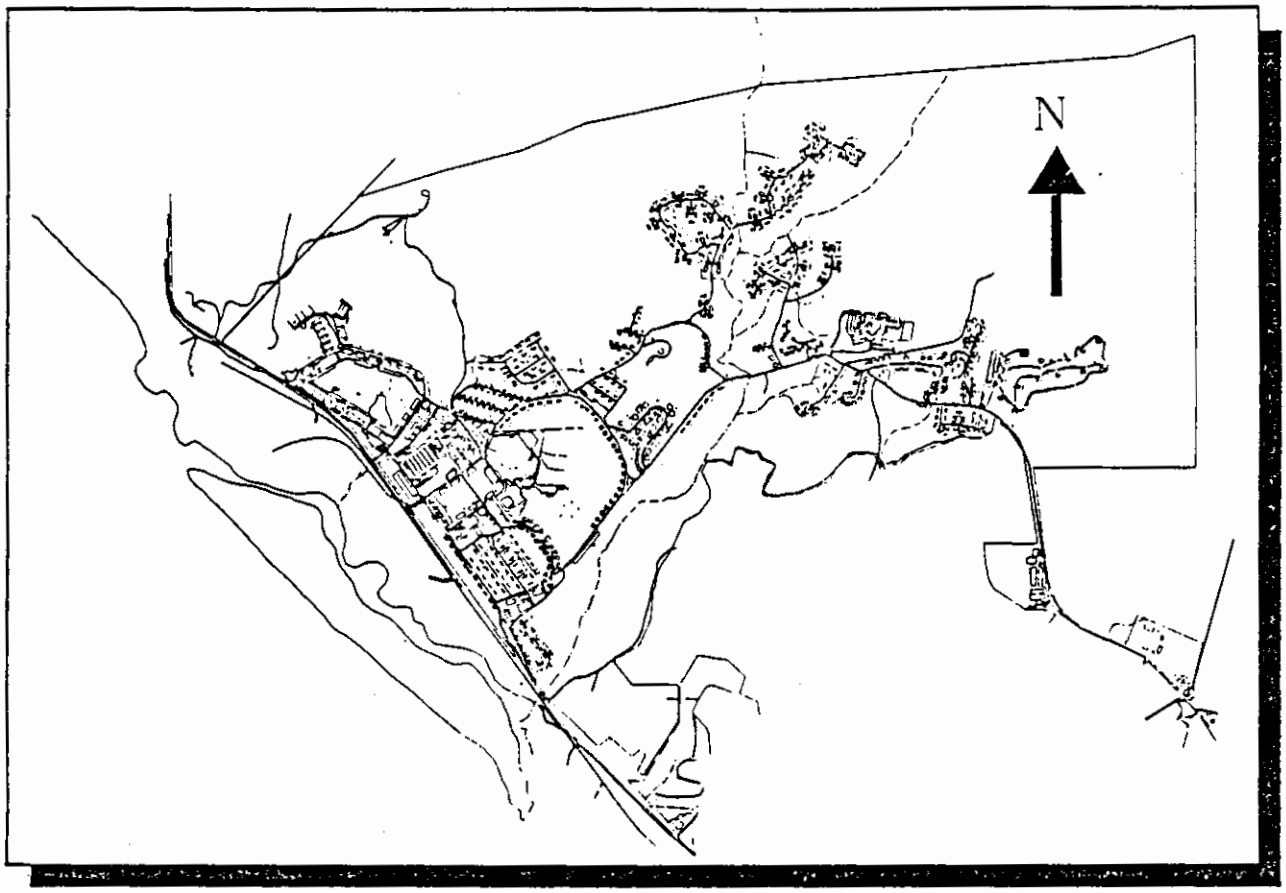
Facility	Building Number
Hospital -- 384,000 square feet -- now used as a 100 bed facility	254
Morgue and Chapel	257
Family Housing -- 19 units 8 duplexes and 3 single units; 3 four-bedroom and 16 three-bedroom	

Balboa
(32 acres)

Facility	Building Number
Elementary School -- 37 classrooms/offices (525 student capacity)	710
High School complex; auditorium; sports fields including one baseball field, pool, gym, and locker rooms; shops; and labs -- 77 classrooms/offices (1,300 student capacity)	701, 702, 704, 705, 706
Panama Canal College -- 2,220 students	1033
Port Warehouse Building -- 4 floors of 63,000 square feet	1501

Quarry Heights
(77 acres)

Facility	Building Number
Community Club -- 210 person seating capacity and kitchen	119
Post Office	84
Family Housing -- 86 units 1 sixplex, 8 quadplex, 10 duplex, and 28 single units; 1 five-bedroom, 26 four-bedroom, 40 three-bedroom, and 19 two-bedroom	
Underground Storage Tunnel	
Dormitories -- 18 persons	
Motel -- 13 rooms	
Conference Room	84



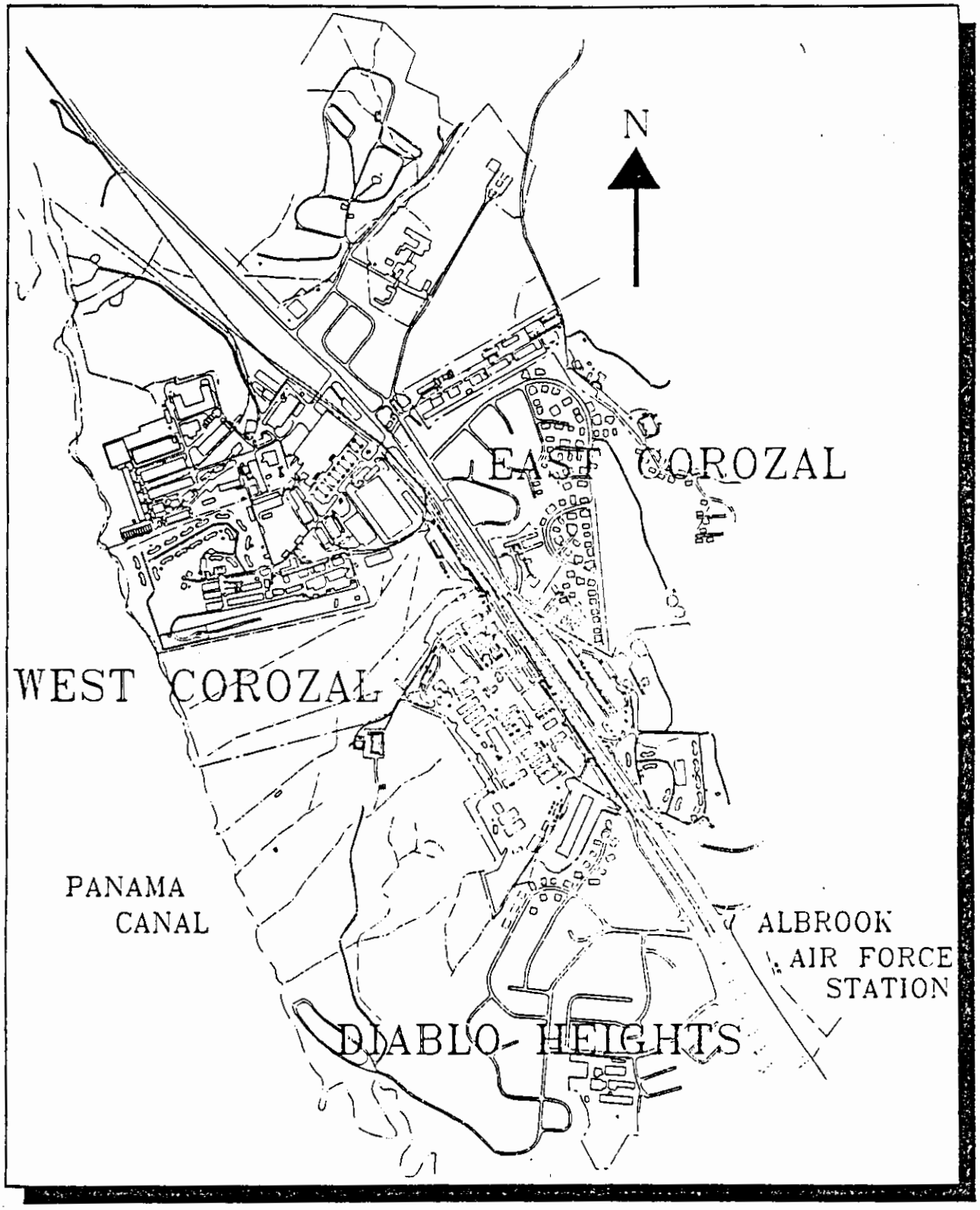
Fort Clayton

Fort Clayton

(2,180 acres)

Facility	Building Number
Bowling Alley -- 8 lanes and fast food facilities	101
Chapel	64
Motel -- 35 rooms and 5 suites	518
Community Clubs -- Building 153 - 375 person seating capacity and kitchen; building 210 - 150 person seating capacity and kitchen	153, 210
Gym	52
Pool -- 50 meters	452

Facility	Building Number
Automobile Service Garage	135
Gas Station with ten lanes	2495, 2497, 2498
Gas Pumps	250
Recreation Center	53
Theater -- 876 person seating	49
Fire Station	172
Outdoor recreation fields	
Two Elementary Schools -- Building 129 - 27 classrooms/offices (330 student capacity); buildings 775-778 - 46 classroomsoffices (800 student capacity)	129, 775-778
Laundromat	
Cafeteria -- 68 person seating capacity	519
Police Station and Detention Center	
Pre-school facilities -- 7 classrooms	39, 156
Major Office Building and Post Office	95
Former Hospital -- 264,186 square feet	519
Dormitories -- 1,754 persons	
Warehouses -- 409,700 square feet	
Family Housing -- 1392 units 1 sixplex, 205 quadplexes, 267 duplexes, and 32 single units; 1 five-bedroom, 229 four-bedroom, 779 three-bedroom, and 383 two-bedroom.	



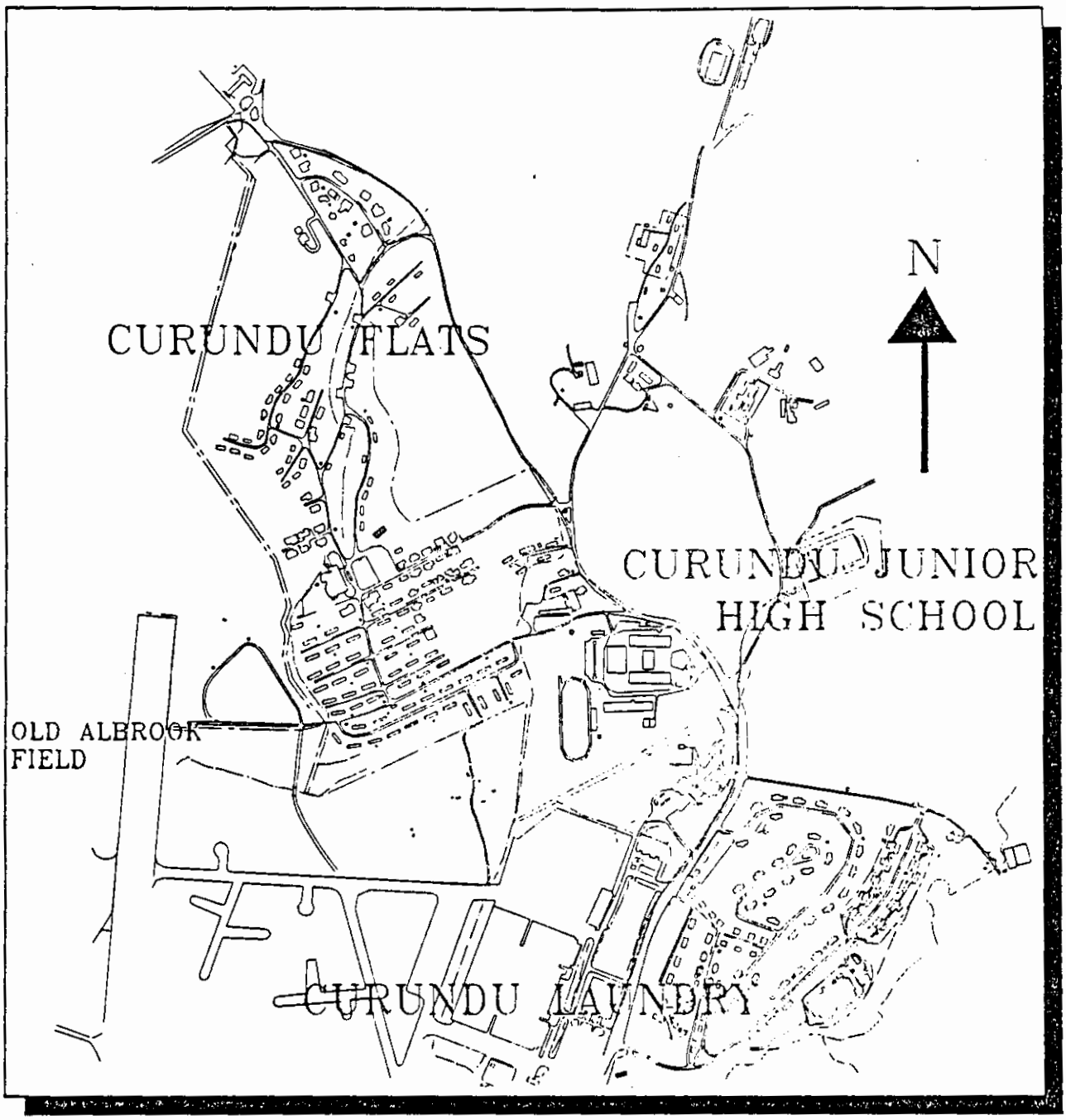
Corozal and Diablo Heights

Corozal
(322 acres)

Facility	Building Number
Retail Stores	654
Cafeteria -- 92 person seating capacity	654
Bank	115
Grocery Store	201
Cemetery (special status IAW treaty)	
Bakery	739
Veterinary Clinic	6554
Two Story Office Building and Fire Station	560
Cold Storage Warehouse	300
Industrial Maintenance Complex	
Elementary School -- 20 classrooms/offices (300 student capacity)	6221-6226
Family Housing -- 60 units 27 duplexes and 6 single units; 2 four-bedroom, 54 three-bedroom, and 4 two-bedroom	
Dormitories -- 496 persons	
Warehouses -- 599,300 square feet	

Diablo Heights
(9 acres)

Facility	Building Number
Elementary School -- 38 classrooms/offices (550 student capacity)	5636

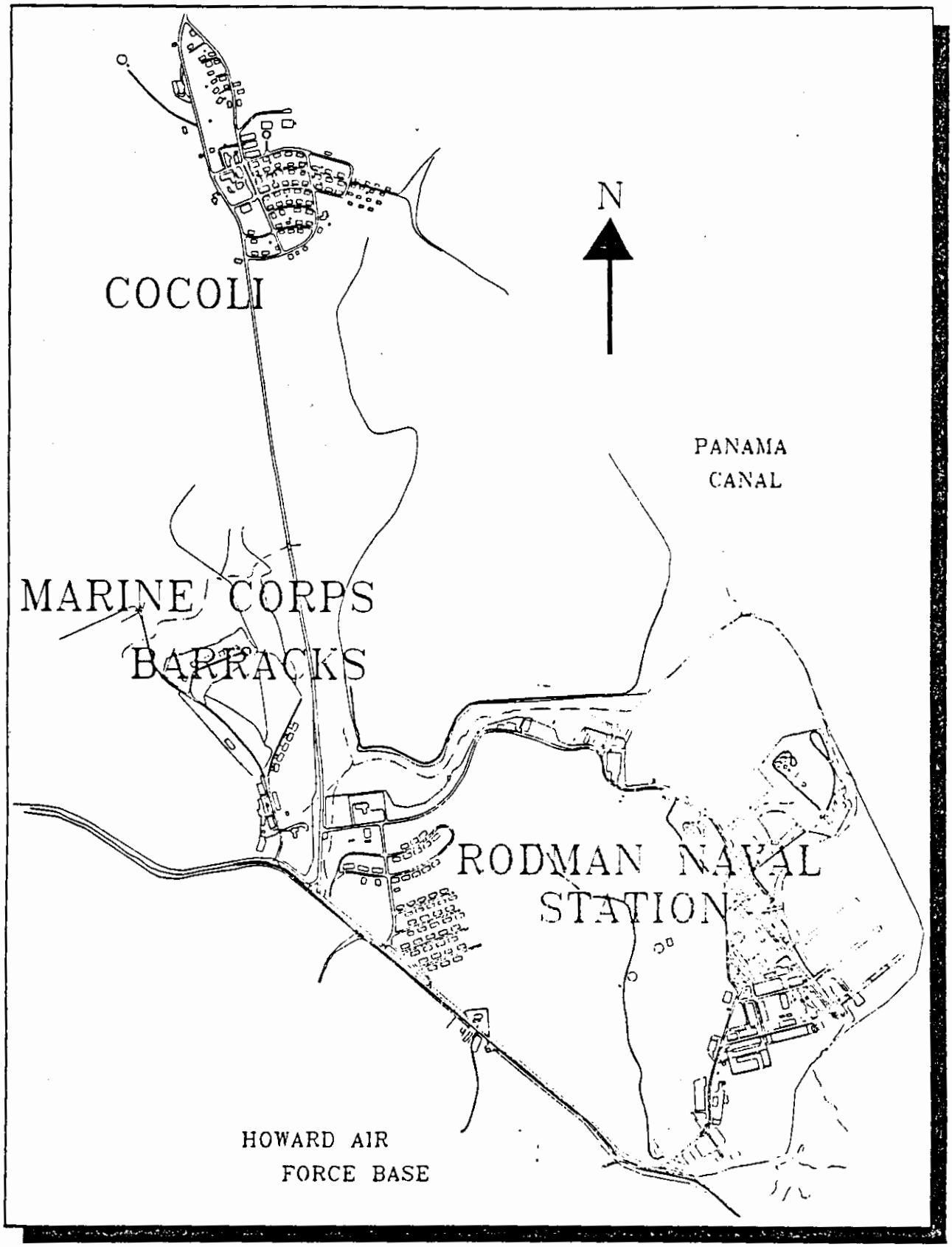

N
CURUNDU FLATS
CURUNDU JUNIOR
HIGH SCHOOL
OLD ALBROOK
FIELD
CURUNDU LAUNDRY

Curundu

Curundu

(183 acres)

Facility	Building Number
Laundry and dry cleaning complex -- 40,469 square feet	876
Bowling Alley and Retail Stores -- 12 lanes at the bowling alley	2057A
Junior High School complex and recreation facilities to include 2 gyms, locker rooms, sports fields, and tennis courts -- 98 classrooms/offices (1,600 student capacity)	610-615
Arts Theater	2060, 2062
Pool -- 30 meters	600A
Family Housing -- 116 units 54 duplexes and 8 single units; 88 three-bedroom and 28 two-bedroom	
Trailer Sites -- 75 sites	
Warehouses -- 43,600 square feet	
Community Club -- 150 person seating capacity with kitchen	



Rodman Naval Station, Marine Corps Barracks, and Cocoli

Cocoli
(146 acres)

Facility	Building Number
Community Center	2553
Family Housing -- 162 units 35 quadplexes, 9 duplexes, and 4 single units; 22 three-bedroom, 90 two-bedroom, and 50 one-bedroom	

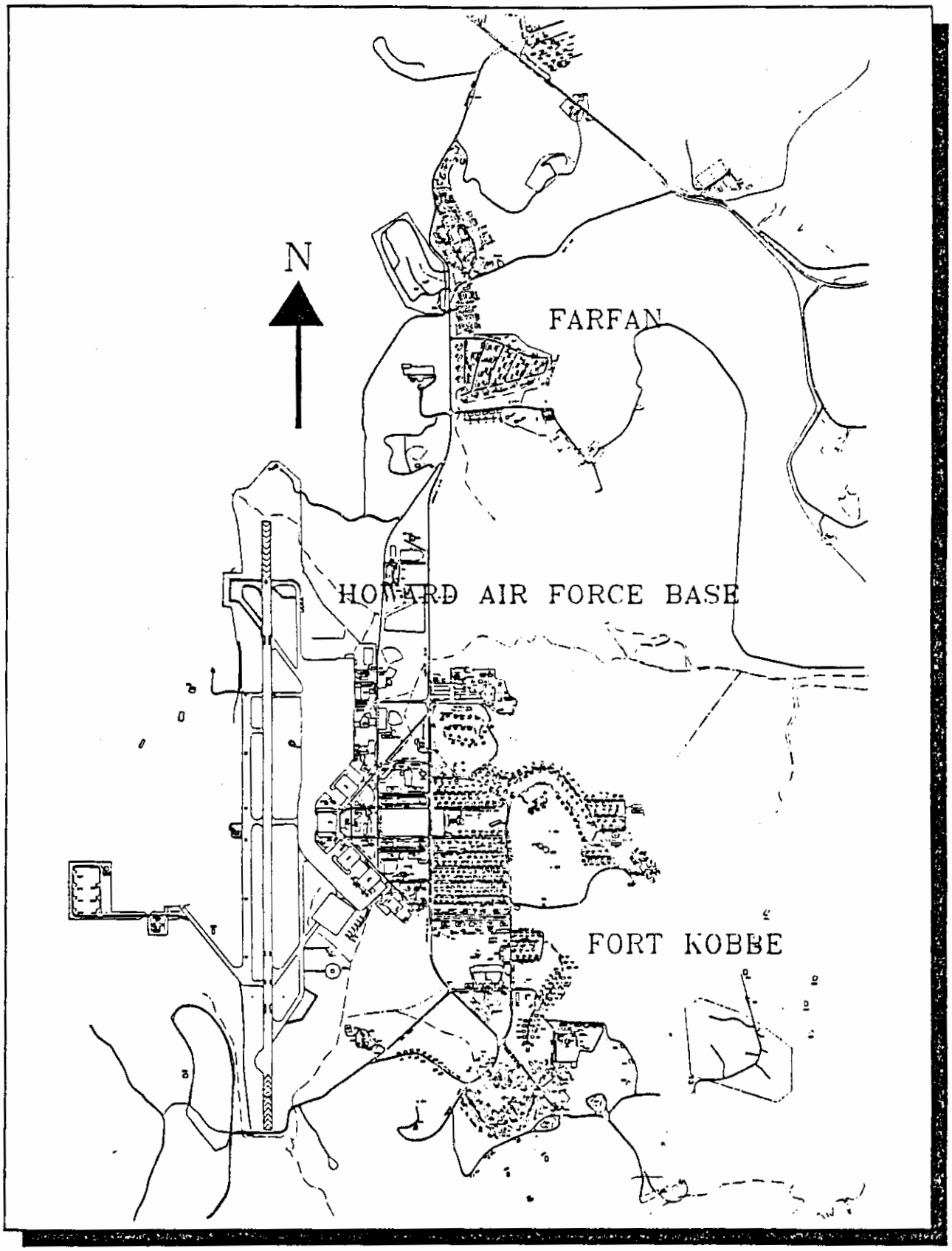
Marine Corps Barracks
(281 acres)

Facility	Building Number
Golf Course with club facilities and restaurant -- 80 person seating capacity and kitchen	
Family Housing -- 25 units 5 quadplexes and 5 single units; 1 four-bedroom, 4 three-bedroom, and 20 two-bedroom	
Dormitories -- 72 persons	
Fast Food Restaurant -- 100 person seating capacity and kitchen	3033

Rodman Naval Station

(600 acres)

Facility	Building Number
Deep draft port facility with 4,000 free berth of pier space	
Boating and Water Recreation Marina	
Retail Store	4
Former Bowling Alley -- now used as a Pizza Hut	24
Community Clubs -- all have kitchens -- building 73 has 125 person capacity, building 659 has a 50 person capacity, and building 48 has a 75 person capacity	73, 659, and 48
Office Building Complex	3001, 3003-3005
Two Story Office Building with Post Office	51
Fire Station	79
Pool -- 50 meters long	622
Gym	
Heavy Industrial Area	
Chapel	
Warehouses -- 55,000 square feet	
Family Housing -- 86 units 8 quadplexes, 26 duplexes, and 2 single units; 1 four-bedroom, 23 three-bedroom, and 62 two-bedroom	
Dormitories -- 182 persons	
Cold Storage -- 4,600 square feet	



Howard Air Force Base, Farfan, and Fort Kobbe

Farfan
(819 acres)

Facility	Building Number
Pool -- 40 meters in length	6311
Family Housing -- 100 units 5 quadplexes, 35 duplexes, and 10 single units; 80 three-bedroom and 20 four-bedroom	
Dormitories -- 127 persons	

Howard Air Force Base
(5,282 acres)

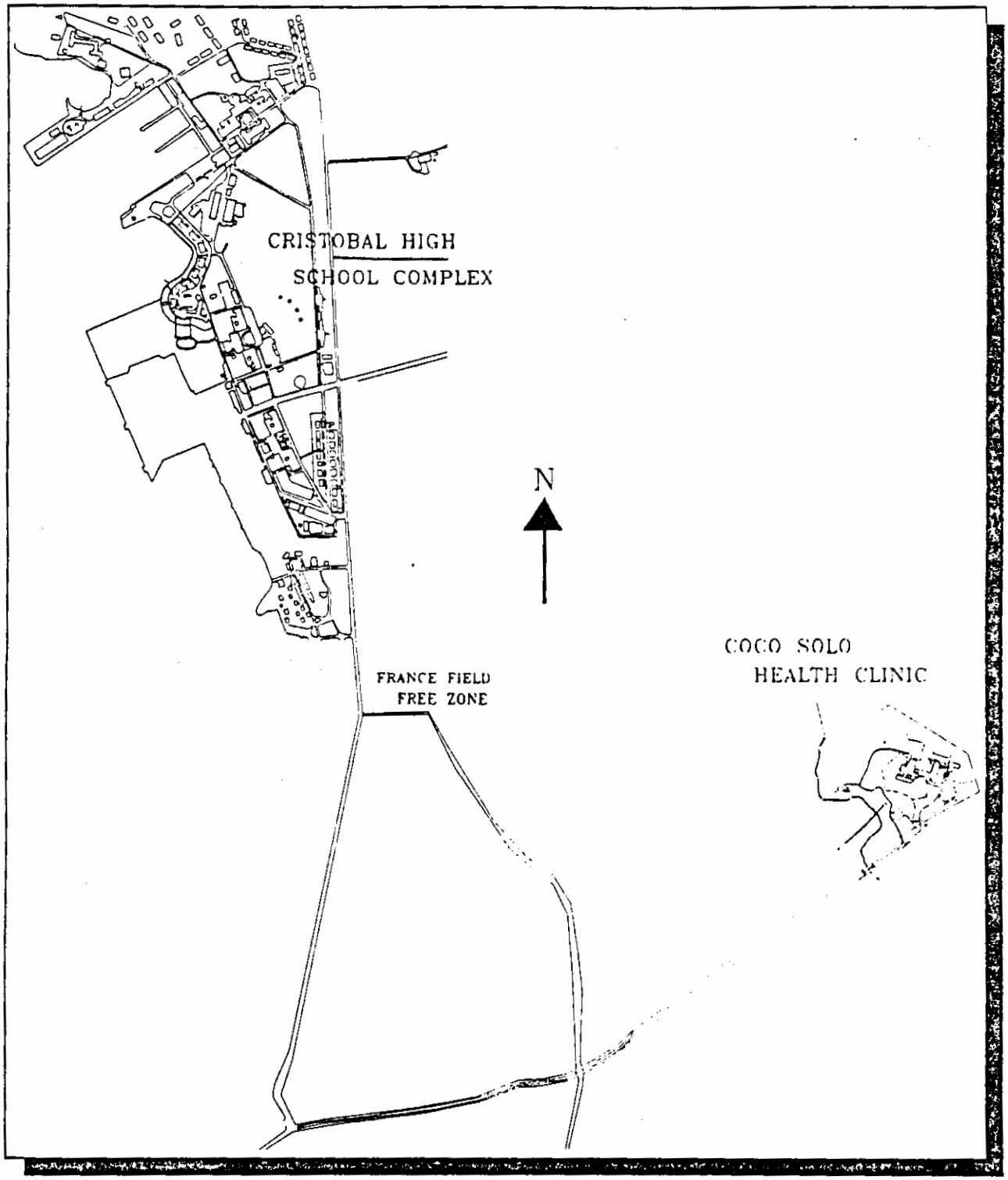
Facility	Building Number
All weather jet aircraft international airport including hangars, passenger terminal, and fueling facilities -- 8,500 feet long	
Bowling Alley -- 10 lanes with fast food facility	246
Chapel	500
Grocery Store	1
Community Clubs -- Building 710 - 350 person seating capacity and kitchen; building 113 - 250 person seating capacity and kitchen	710, 113
Gym	248
Theater -- 1,189 person seating	34
Veterinary Clinic	810
Pool -- 50 meters	40
Post Office	711
Recreation Center	709, 696
Stables	
Fire Station	726
Gas Station	700
Retail Sales Stores	709, 711
Outdoor recreation fields	

Facility	Building Number
Elementary School -- 31 classrooms/offices (student capacity 400)	961, 962
Bulk Fuel Storage Area -- Arraijan Tank Farm; 1,125 million barrels with direct piping to Rodman and Howard	
Cafeteria -- 128 person seating capacity	709
Sewage Treatment Plant (secondary)	
Warehouses -- 194,739 square feet	
Family Housing -- 706 units 25 sixplexes, 20 quadplexes, 210 duplexes, and 53 single units; 111 four-bedroom, 391 three-bedroom, and 200 two-bedroom	
Dormitories -- 927 persons	

Fort Kobbe

(5,196 acres)

Facility	Building Number
Elementary School -- 36 classrooms/offices (428 student capacity)	840, 841
Family Housing -- 264 units 39 quadplexes, 49 duplexes, and 10 singles; 43 four-bedroom, 107 three-bedroom, and 114 two-bedroom	
Dormitories -- 1,036 persons	
Warehouses -- 101,000 square feet	
Underground storage (now used as an ammunition storage facility)	

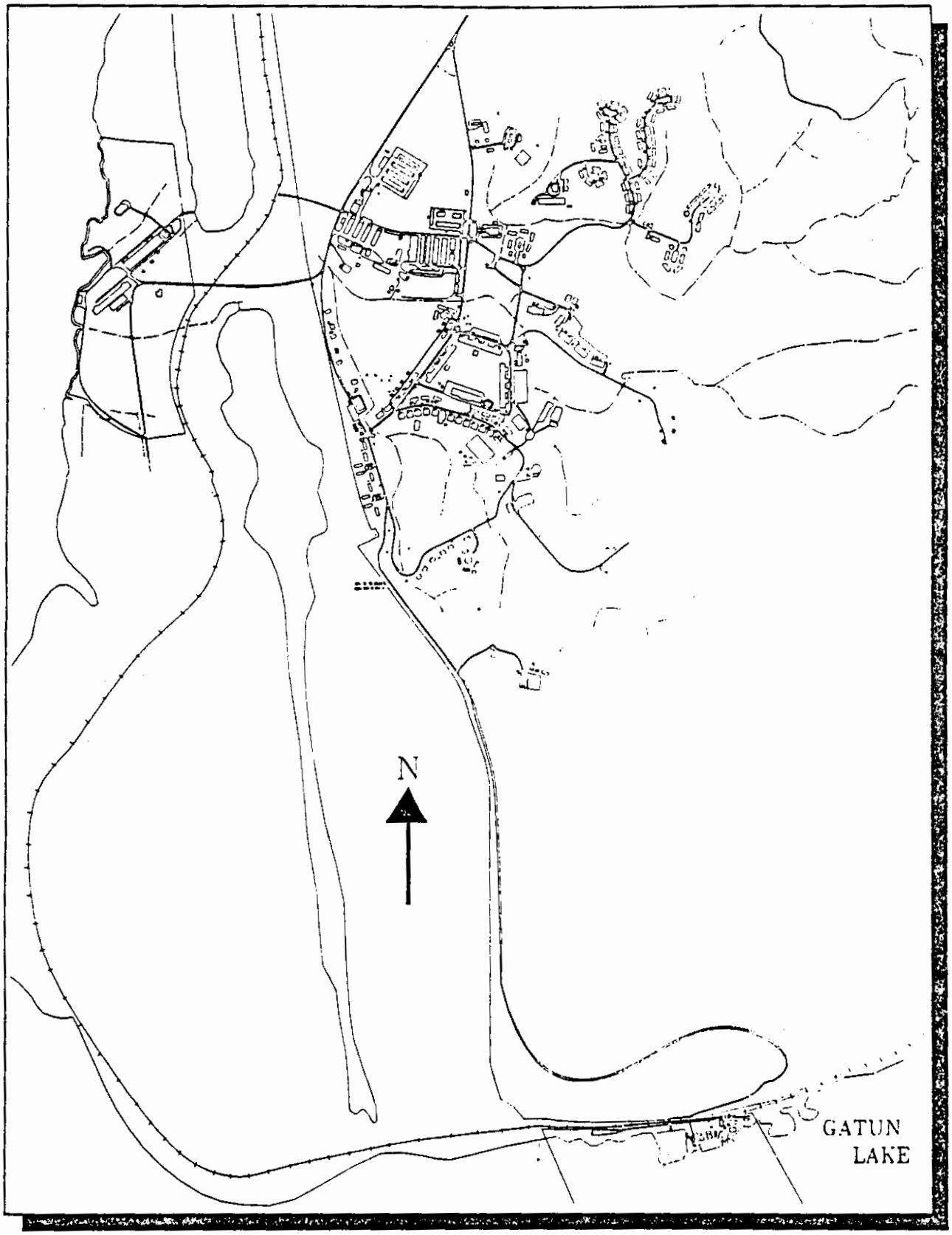

CRISTOBAL HIGH
SCHOOL COMPLEX
N
COCO SOLO
HEALTH CLINIC
FRANCE FIELD
FREE ZONE

Coco Solo

Coco Solo

(62 acres at school and 79 acres at health clinic)

Facility	Building Number
Junior and Senior High School complex; auditorium; associated recreation facilities to include one baseball field, tennis courts, locker rooms, and one pool; labs; and shops -- 74 classrooms/offices (1,000 student capacity)	1149, 1150, 1151, 1158
Health Clinic (formerly used as a full service hospital) -- 4 stories, 200 bed capacity	8900, 8902, 8904, 8906
Dormitories -- 14 persons	
Warehouses -- 9,000 square feet	

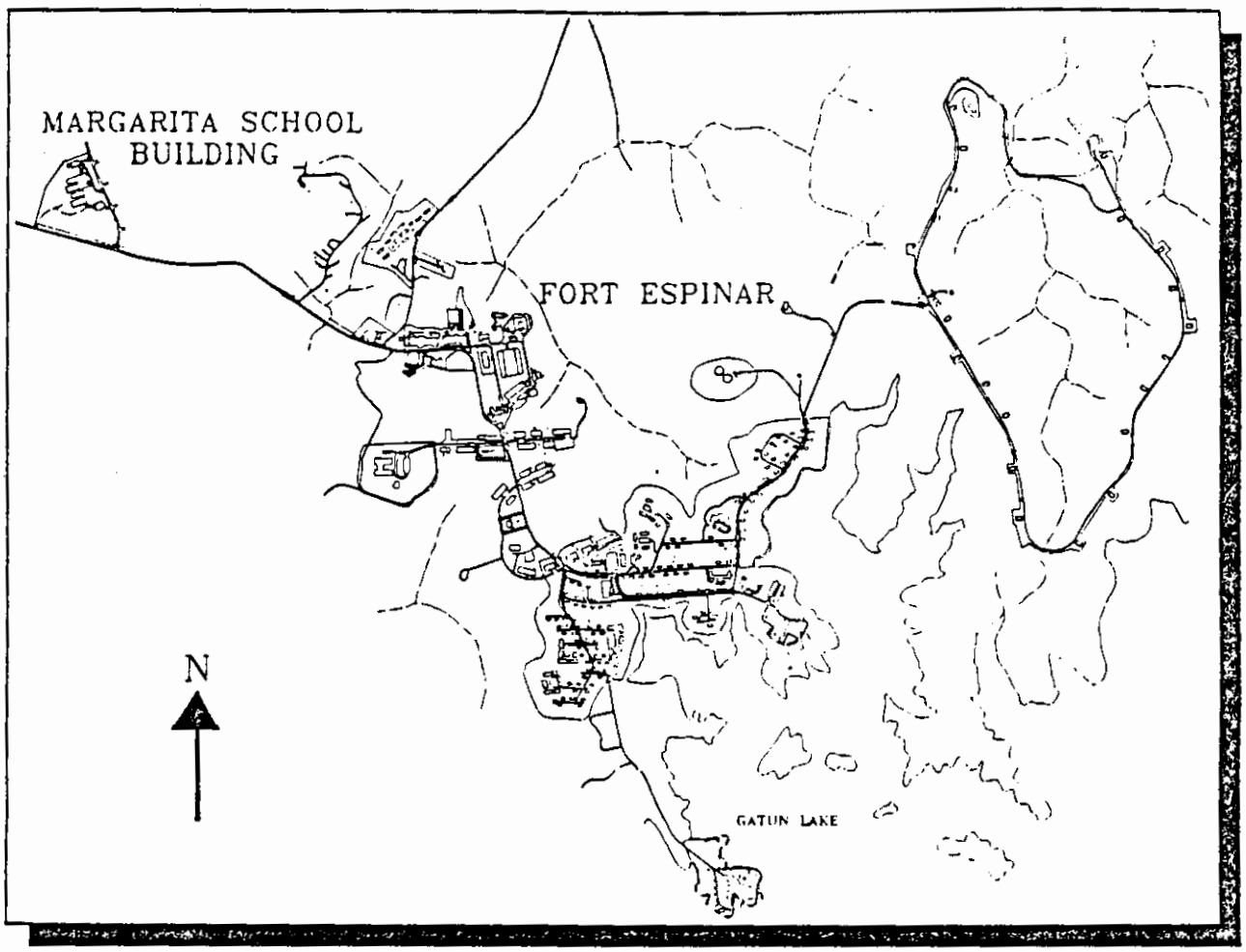


Fort Davis

Fort Davis

(4,075 acres)

Facility	Building Number
Retail Sales Stores, Post Office, Chapel, Cafeteria - 180 person seating capacity	32
Two Community Clubs -- Building 87 - 450 person seating capacity and kitchen; building 106 - 60 person seating capacity and no kitchen	87, 106
Gas Station (2 lanes)	268
Recreation Center	42
Elementary School -- 24 classrooms/offices (330 student capacity)	600, 601
Pool -- 50 meters	901
Theater -- 600 person seating	104
Outdoor recreation fields	
Family Housing -- 397 units 86 quadplexes, 24 duplexes, and 5 single units; 54 four-bedroom, 277 three-bedroom, and 66 two-bedroom	
Warehouses -- 156,000 square feet	
Dormitories -- 1,200 persons	
Former Golf Course	
Gym	86



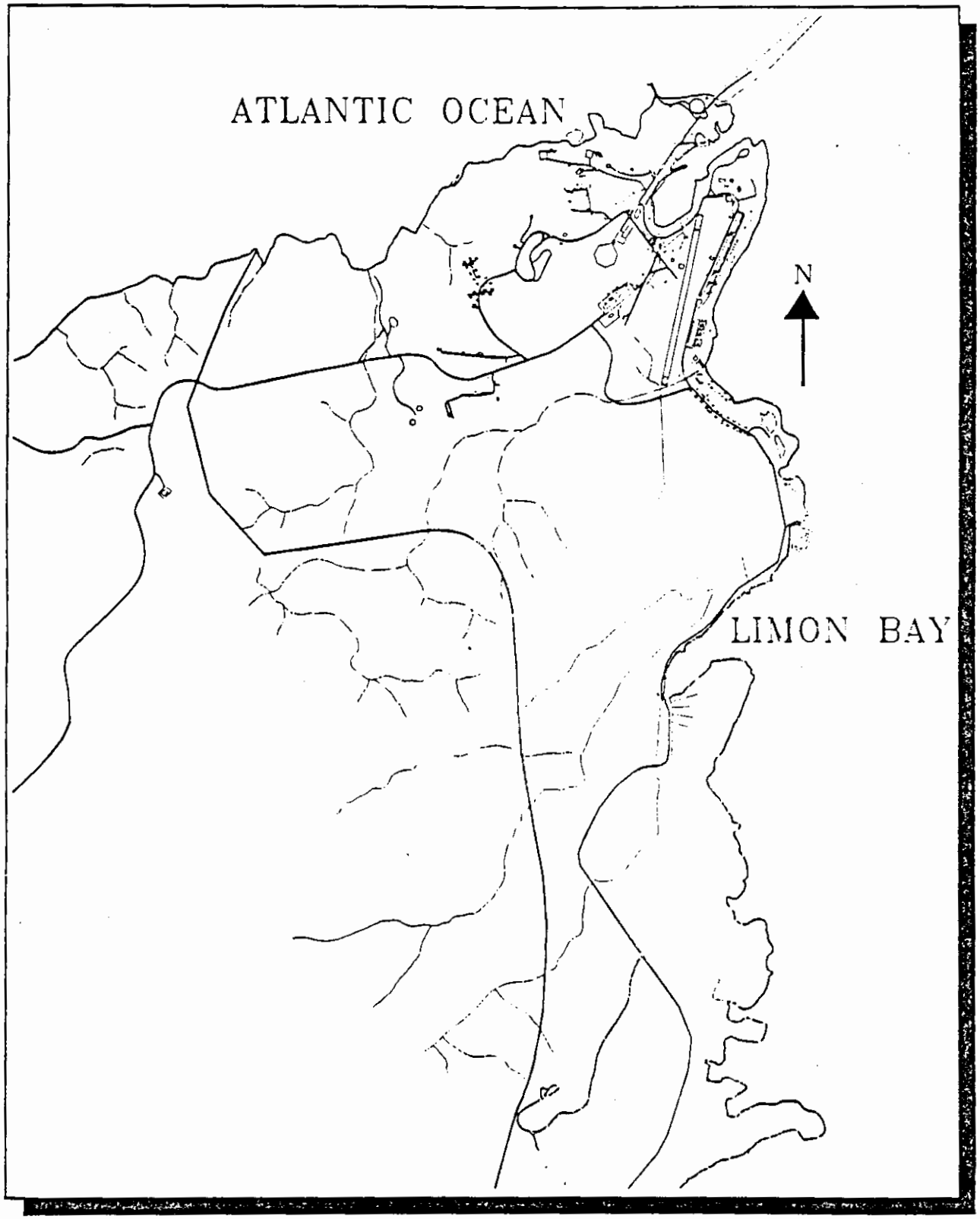
Fort Espinar and Margarita School Building

Fort Espinar (Gulick)
(344 acres)

Facility	Building Number
Aquativity Recreation Center (including bohios and dock)	
Bowling Alley -- 8 lanes with fast food counter	221
Chapel	224
Grocery Store	301
Motel -- 19 rooms and two suites	402
Pool -- 50 meters	901
Former Gas Station (2 lanes)	299
Underground storage (now used as an ammunition storage facility)	
Warehouses -- 23,000 square feet	
Family Housing -- 331 units 29 quadplexes, 24 duplexes, and 5 single units; 78 four-bedroom, 99 three-bedroom, and 159 two-bedroom	
Dormitories -- 58 persons	
Elementary School -- 21 classrooms/offices (356 student capacity)	350, 351
Sewage Treatment Plant (primary)	315A-D

Margarita
(14 acres)

Facility	Building Number
Community Center (formerly an elementary school that had 15 classrooms)	8346, 8348-8352

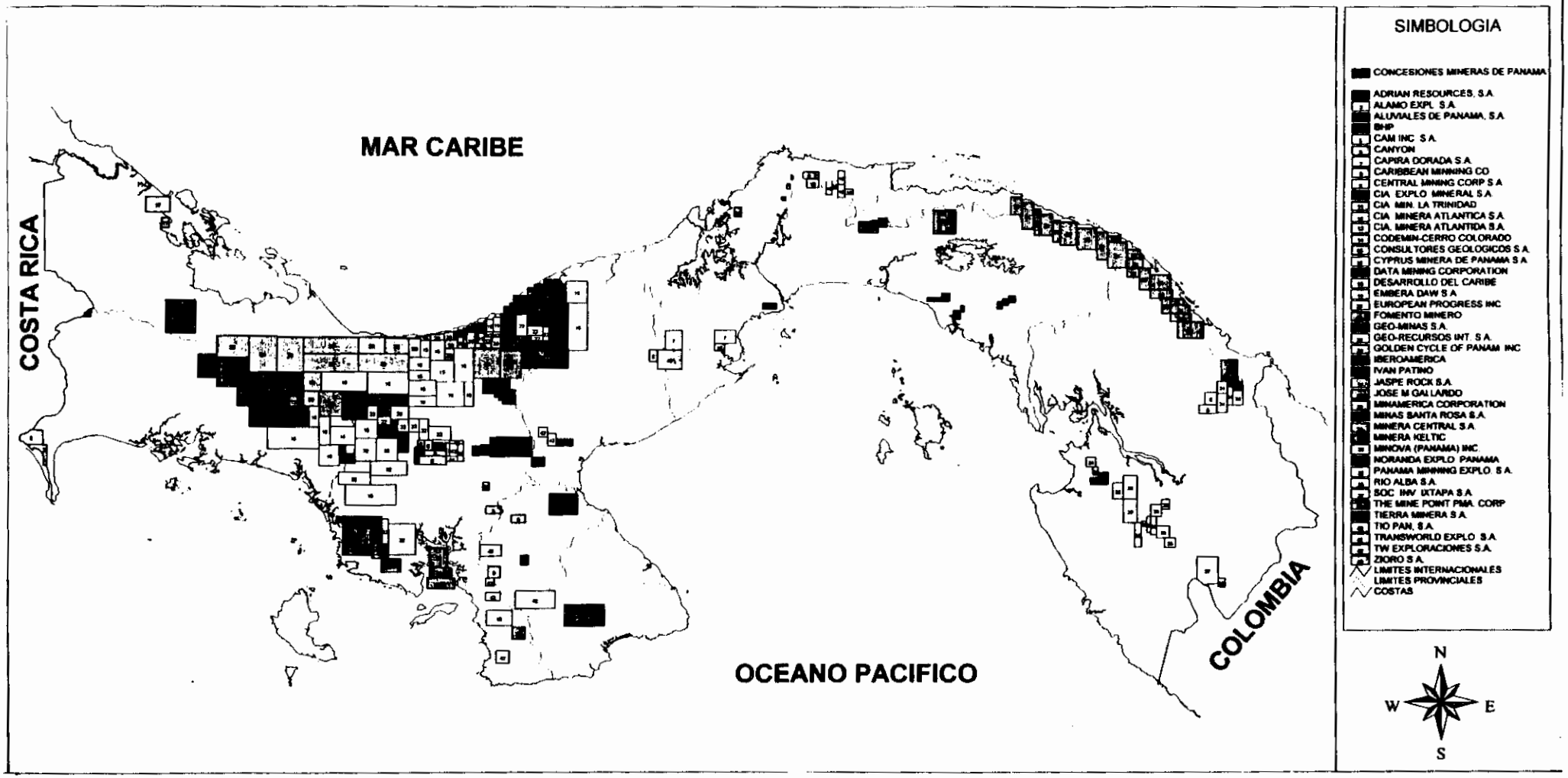


Fort Sherman

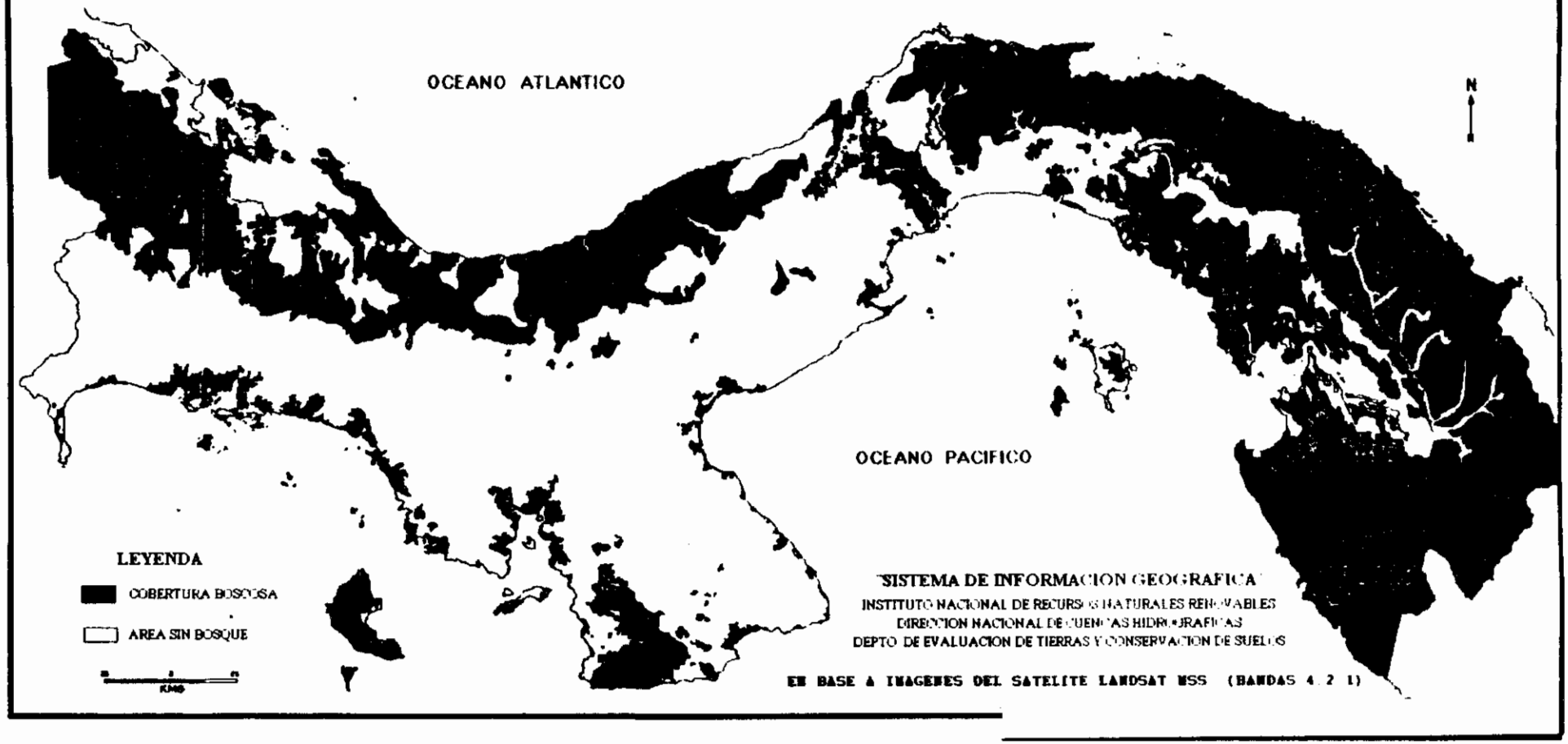
Fort Sherman
(23,100 acres)

Facility	Building Number
Small Cement Dock	
Water Recreation Facilities and Fire Station	30
Chapel	152
Gym	214
Theater -- 200 person seating	4
Outdoor recreation fields and beach	
Gas Station (2 lanes)	
Limited runway -- 2,775 feet	
Community Club -- 160 person seating capacity and kitchen	214
Warehouses -- 11,100 square feet	
Family Housing -- 67 units 28 duplexes and 9 single units; 6 four-bedroom, 29 three-bedroom, and 32 two-bedroom	
Dormitories -- 300 persons	

CONCESIONES MINERAS DE PANAMA



COBERTURA BOSCOSA DE LA REPUBLICA DE PANAMA (1986)



ANNEX F