

PT ARM-515

USAID/PANAMA

RESULTS REVIEW AND RESOURCE REQUEST

FOR FY 1996 - FY 1998

February 1996

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I. FACTORS AFFECTING PROGRAM PERFORMANCE**A. INTRODUCTION**

The USAID/PANAMA program supports U.S. foreign policy objectives aimed at successful implementation of the Panama Canal treaties. Under the treaties, Panama will 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 the Government of Panama.

A democratic, prosperous and stable Panama will help ensure smooth transfer of Canal ownership and control, contributing to efficient Canal operations well into the next century. In addition, well planned, productive and socially responsible use of the reverted areas is essential to offset the loss of income and employment resulting from closure of the U.S. military bases.

Environmental protection of the Panama Canal Watershed is vital to safeguarding the fresh water resources upon which Canal hydrology depends. Continuing deforestation threatens the sustainability of these resources. Community participation in the protection of the Watershed requires close collaboration with the municipalities and local councils within and around it.

B. PROGRESS IN ACHIEVING STRATEGIC OBJECTIVES

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

Over the past year, USAID/PANAMA consolidated and extended previous support for Panama's democratic governance by strengthening the Government of Panama (GOP) financial management, judicial reform and municipal development; establishing a working relationship with the GOP Panama Canal Transition Commission (PCTC) which is drafting legislation for the new Panama Canal Authority; and working effectively with the GOP Inter-Oceanic Authority (ARI) which is responsible for planning the productive use of the reverted areas and for overall management of the Canal Watershed.

USAID support for Panama's financial management reform resulted in adoption by all GOP ministries and public entities of a standardized budget system, standard accounting procedures and

improved public debt management. Strengthening of GOP internal and external audit capability is now underway. The Controller General of Panama requested USAID support for full development of the treasury function within the GOP and assistance in its transfer to the Ministry of Finance.

With USAID support, Panama's Supreme Court, Office of Attorney General and Public Defender Institute enacted regulations to implement major judicial reforms. USAID and ICITAP collaborated to help the GOP achieve full integration of the investigative functions of the Attorney General with those of the Judicial Technical Police.

However, it is disturbing that public confidence in Panama's judicial system has plummeted during the past year, reflecting public cynicism concerning judicial ethics and GOP commitment to expeditious due process of law.

The USAID Municipal Development project supported the Panamanian Association of Municipalities in its organization of the first national conference of elected municipal officials. Sixty-one of Panama's sixty-seven mayors and over 900 other local officials participated in working sessions which produced specific recommendations which were presented to the President of Panama who attended the closing ceremony.

USAID commodities, training and technical assistance in support of the GOP Inter-Oceanic Authority helped ARI become fully operational. Led by a U.S. trained economist who is also past president of Panama, ARI has begun to exercise the coordination functions of a "super-ministry" in the strategic planning and marketing of a broad range of former U.S. military properties and in the management of the Panama Canal Watershed.

STRATEGIC OBJECTIVE No. 2: To Protect the Panama Canal Watershed and Other Natural Resources

A USAID grant to the Smithsonian Tropical Research Institute will enable the GOP to establish comprehensive environmental monitoring systems within the Panama Canal Watershed to measure changes in forest cover, water quantity, quality and siltation, biodiversity and demographic change.

A \$25 million Environmental Trust Fund, established by USAID/PANAMA, the GOP and The Nature Conservancy has begun to generate additional resources to fund Panamanian NGO proposals for reforestation and protection of the Canal Watershed and national parks.

Progress has been slow in focusing the GOP Institute for the Management of Renewable Natural Resources (INRENARE) on specific actions which are essential to full protection of the Canal Watershed. INRENARE's mandate is nation-wide. However, its management, financial and personnel resources are inadequate to achieve the extensive range of responsibilities it has been given.

While INRENARE would prefer broad institutional and commodity support, USAID continues to insist on achievement of measurable objectives necessary to Canal Watershed protection. The latter include establishment of monitoring systems within the Watershed, demarcation of park boundaries, construction of guard facilities, deployment of guard patrols and work with local communities to reforest and protect substantial areas within the Watershed.

C. ECONOMIC AND POLITICAL DEVELOPMENTS

Recent polls indicate the Panamanian population is increasingly concerned about levels of unemployment, drug trafficking, violent crime and government corruption. Economic growth per capita has fallen in real terms over the past two years and is now under two percent. The luxury high rise construction boom is over. Open unemployment, now estimated at 14%, will certainly go higher. Forty percent of the total population is below the poverty line, and the bottom 20% of the population controls only 2% of the wealth. Rural malnutrition equals that of many low income countries and rural to urban migration continues at 6 - 7% a year. Urban housing stock is grossly deficient for the lower classes. The city of Colon, with its unique African-Antillan population, suffers the worst in terms of slum housing and deficient public services. Urban water and sewage infrastructure in both Panama City and Colon requires a drastic overhaul. Solid waste management challenges most Panamanian municipalities. In the Panama Canal Watershed, expansion of urban landfills threatens national parks. Privatization of public utilities is well behind schedule. At the same time, highly protected domestic agricultural interests resist broad tariff reforms which are a precondition for Panama's accession to the World Trade Organization. Major private sector investments in tourism, mining and hydro-electric development are just beginning to materialize.

The closure of ten U.S. military bases within a five year period will have profound repercussions. Panama must replace the \$250 to \$370 million a year (about 10% of GDP) which the U.S. military provides through salaries to Panamanian employees, local purchase of goods and services, construction and repair contracts

and personal expenditures. There is overwhelming popular support for re-negotiation of the Canal treaties to permit a continued U.S. military presence beyond the year 2000.

II. PROGRESS TOWARD STRATEGIC OBJECTIVES

A. PERFORMANCE DATA TABLES, ANALYSIS AND EXPECTED PROGRESS

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

a. Tables

Table 1: Strategic Objective No. 1

Panama
Agency Goal: To Build Democracy
<i>STRATEGIC OBJECTIVE NO. 1: To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation</i>

INTERMEDIATE RESULT NO. 1 Implementation of Transition Plan for transfer of Panama Canal operations	INTERMEDIATE RESULT NO. 2 Improved planning for use of reverted areas	INTERMEDIATE RESULT NO. 3 Institutionalized fair and expeditious criminal justice process	INTERMEDIATE RESULT NO. 4 Improved public sector financial management and accountability	INTERMEDIATE RESULT 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

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%
		1991	45.0%	55.5%
Comments: Numbers of cases processed: 1991 7,400 1992 8,438 1993 10,537 * Estimated. Serious delays mean thousands of Panamanians are in prison for months awaiting trial.		1992	50.0%	58.5%
		1993	55.0%	57.6%
		1994	58.0%	(60.0%)*
		1995	60.0%	(60.0%)*
	Target	1996	62.0%	

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
		1994	25%	30%
Comments:		1995	42%	100%
		1996	64%	
		1997	77%	
	Target	1998	100%	

INTERMEDIATE RESULT INDICATOR

STRATEGIC OBJECTIVE NO. 1: To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation				
INTERMEDIATE RESULT 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: Panama Canal Commission "Milestone Plan" (Annex B.1) Provides comprehensive outline of specific tasks required for successful Canal transfer.		1995	- transition commission named	yes
		1996	- Phase II - Policy & strategy set	

INTERMEDIATE RESULT 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: ARI Work Plan for 1996 (Annex B.2) and U.S. Southern Command Reversion Schedule (Annex B.3) indicate scope and complexity of the strategic planning effort.		1994	- Coco Solo reverted - Ft. Amador Specs.	yes
		1995	- Albrook assessment	yes
		1996	- Ft. Amador master plan (tourist center) - Gorgas Feasibility	yes Under way
		1997	- Albrook reverted - Gorgas reverted	
		1998	- others TBD	
	Target	1999	TBD	

INTERMEDIATE RESULT 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 - 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: Selection process for judges gradually becoming more objective and transparent.		1992	----	129
			1993	----	166
			1994	----	241
			1995	350	362
		Target	1996	450	

Indicator 2: Public confidence in the overall justice system (wording change to incorporate or consolidate with Indicator No. 3).					
Unit: % of public polled		Year	Planned	Actual	
Source: Sample Surveys	Baseline	1994	----	70%*	
	Comments: Measurement of performance through sample surveys. * USIA poll conducted in September 1994. ** CID-GALLUP, and Ritcher & Neira Polls, September 1995 and October 1995. *** CID-GALLUP Poll January 1996.		1995	75	51.7%**
		Target	1996	57.5	30.1%***

INTERMEDIATE RESULT 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 General's 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%	100%
			1996	66%	

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%	75%
			1996	75%	

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%	40%
		1996	35%	

INTERMEDIATE RESULT 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 implementation just under way.		1995	----	(*)
		1996		

Indicator 2: Increased collection of revenues by municipalities				
Unit: % of available revenues		Year	Planned	Actual
Source: Municipal records, USAID analysis	Baseline	1992	----	60%
Comments: (*) Project implementation just under way. "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%	

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 help with employment search.		1995	92%	94%
		1996	93%	

b. Analysis

Implementation of Transition Plan for Transfer of Panama Canal Operations:

- The Legislative Assembly approved a Constitutional Amendment creating the Panama Canal Authority (the Panamanian entity that will assume Canal management after December 31, 1999), based on a proposal of the ad-hoc Presidential Commission on Canal Affairs, prepared with USAID assistance.
- In January 1995 the GOP established the Transition Commission for the Transfer of the Panama Canal, based on a study financed by USAID. The main role of the Commission is to develop the Panamanian legal, financial, administrative framework for the "seamless transfer" of Canal management on December 31, 1999. The Commission is currently drafting the framework [organic] law for the new Panama Canal Authority.

Improved Planning for Use of Reverted Areas

- In July 1995, USAID/Panama established a Task Force Team for Reversion issues following the Agency's guidelines for the re-engineering program. The task force meets weekly and includes GOP counterpart agencies.
- The Mission has established a close working relationship with the GOP Interoceanic Regional Authority (ARI) to provide technical assistance to support productive use of the reverted properties.

The withdrawal of U.S. military forces will result in loss to the GOP of revenues totalling more than \$250 million per year and a loss of 14,000 Panamanian jobs. The immediate challenge for ARI is to replace lost jobs and income with new, diversified, sustainable economic activities in the reverted areas.

- Within this context, an international forum on reconversion of military bases took place in August 1995, co-sponsored by ARI, USAID and the Panamanian Real Estate Agents and Developers Association (ACOBIR). USAID provided five consultants experienced in base closings in the U.S., the Philippines and Germany. Their recommendations helped ARI refine strategic objective plans and marketing strategies to develop the reverted areas.

- A U.S. firm, Edward Stone & Associates, completed the final draft of a master plan for the development of Fort Amador as a tourism complex. USAID developed the terms of reference for this study.
- ARI put into operation a computerized Geographic Information System (GIS), funded by USAID. The GIS provides for more efficient management control of reverted properties and related infrastructure.
- To improve the investment climate, with particular attention to the reverted areas, the Legislative Assembly passed a law to modernize the Panamanian Labor Code, while preserving the fundamental rights of workers. USAID contributed technical assistance to drafting the law.
- In 1995, under a side agreement to the Panama Canal Treaties, USAID's Housing Guarantee Program financed construction of 586 additional housing units for medium to low-income families, bringing the total constructed to date to 1,424.

Institutionalized Fair and Expeditious Criminal Justice Process

- The Panamanian public continues to rate the justice system as corrupt and inefficient. Defendants are frequently imprisoned for more than a year while awaiting trial. Prison conditions are among the worst in the hemisphere.
- USAID supports GOP efforts to attract funding from the IDB and other donors in further strengthening of judicial reforms and improvement in prison conditions.
- All Panamanian courts and prosecutors offices have been incorporated into a unified case tracking and statistical control system. The system will be automated in four pilot areas during 1996.
- The case tracking system within the Auxiliary Attorney's Office of the Public Ministry has reduced bureaucratic procedures 60 percent.
- USAID helped achieve functional integration of the investigative functions of the Judicial Technical Police (PTJ) with those of the Attorney General's Office in three of the four Judicial Districts.
- USAID assisted a community legal education program conducted by a Panamanian NGO and focused on lower income adults and high school students.

- USAID helped draft a supplementary judicial reform bill to restructure the Public Ministry and provide prosecutors with discretionary authorities. The bill is pending first debate in the Legislative Assembly.
- Computer hardware specifications (\$1.5 Million) have been developed to automate criminal courts, prosecutors offices and administrative sections, as well as the office of the Supreme Court justices and the Attorney General.
- An office to centralize "complaints and charges" was created in the Auxiliary Attorney's Office, providing a system for receiving and distributing cases to the proper offices for efficient processing.
- Accurate statistical reporting in the Public Ministry now includes information from the Drug Prosecutor's Office, prisoner status monitoring data correlated to prosecutors actions, and the number of cases returned by the courts for follow up.
- The Attorney General incorporated intellectual property right (IPR) violations as a crime in the recent draft judicial reform bill.
- USAID assisted the drafting of legislation making domestic violence a crime and simplifying processing for these cases; it also introduced substantial reforms to the Criminal Code regarding sexual crimes. The law was passed and came into effect in June, 1996.
- USAID helped design a specialized training program for judges and prosecutors (providing each a minimum of 240 hours), the first such program in Latin America.
- USAID-sponsored judicial seminars for judges, prosecutors and public defenders has provided a forum for debating legal and procedural issues, providing exposure on international trends on similar issues, and facilitating informal coordination.

Improved Public Sector Financial Management and Accountability

- All GOP entities submitted 1994 financial statements on time to the Controller General for audit and publication.
- The percentage of GOP entities effectively using the Budget Formulation Manual, developed with USAID assistance, increased from 25% in 1994 to 75% in 1995. As a result of this effort, the GOP Budget Bill for FY 96 was presented

earlier than in previous years, allowing additional time for review and discussion within the Legislative Assembly. The bill was signed on December 11, 1995.

- Fifteen percent of public sector entities began to use the Budget Execution and Evaluation Manual, developed with USAID assistance. In 1996, the percentage of users should be increased to at least 50%.
- The Controller General's Office purchased and installed software to integrate budgeting, accounting and treasury functions. USAID will assist integrated automation of this system in 1996.

c. Expected Progress

After September 30, 1996, SO#1 will be replaced by a more focused Special Objective (SpO): To facilitate the smooth transfer of the Panama Canal and the productive use of the reverted properties.

Through FY 97, the Mission will accomplish the following:

- Provide technical assistance to ARI to examine proposed uses for Albrook air force base, determine future uses for Gorgas Military Hospital and other important properties.
- Establish an umbrella grant agreement with a business-oriented U.S. PVO (The International Executive Service Corps) to provide ARI with approximately 40 evaluations and assessments, to help determine on a case-by case basis, the optimum productive use of specific assets or reverted properties.
- Concentrate remaining resources under the Financial Management Reform (0306) and Trade and Investment Development (0309) projects on the Special Objective, to flexibly respond to ARI demands for technical assistance, special studies and institutional support. ARI's improved financial management will expedite the reversion process and help make it more accountable and transparent.

All activities under the Improved Administration of Justice (0312) and Tax Administration Improvement (0314) projects will be brought to completion by the end of FY 96.

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

a. Tables

Table 1: Strategic Objective No. 2

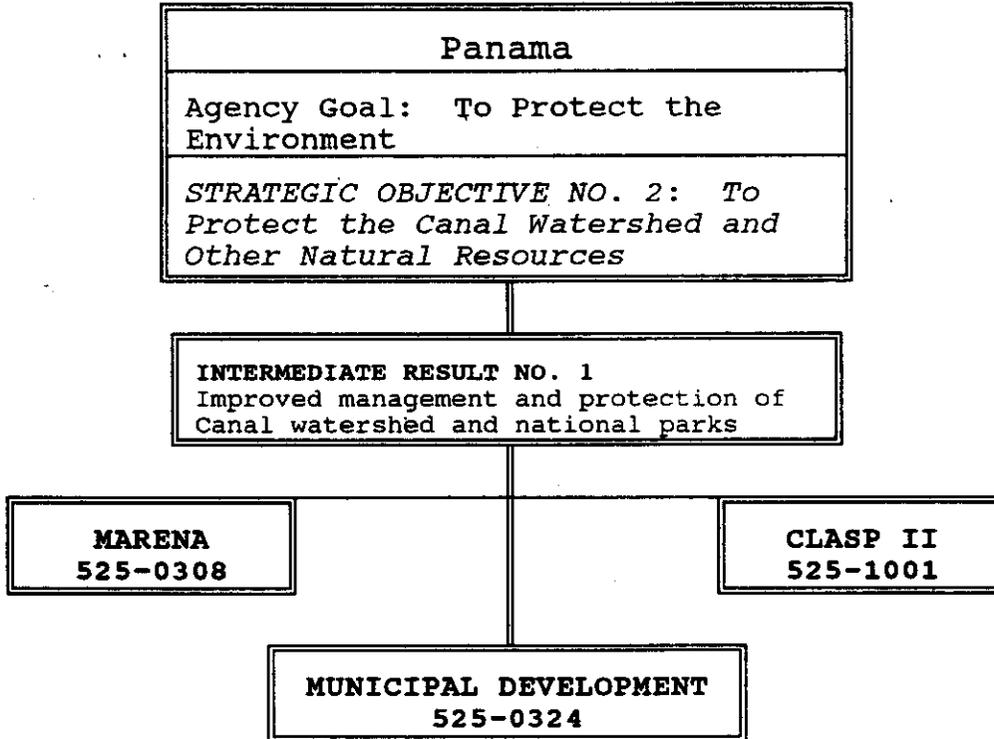


Table 2: STRATEGIC OBJECTIVE PERFORMANCE

STRATEGIC OBJECTIVE - To Protect the Canal Watershed and Other Natural Resources				
Indicator 1: Increased forest cover in the Canal Watershed				
Unit: Hectares under forest cover	Year	Planned	Actual	
Source: GOP and NGO reports Comment: The first task is to stop deforestation in the Watershed. The second task is to begin reforestation. In 1996, STRI/INRENARE will establish an ecological monitoring system for the Canal Watershed which will regularly report changes in forest cover. The Environmental Trust Fund and the MARENA project will promote reforestation by private for-profit entities, NGO's and the GOP, the Municipal Development Project and CLASP II Training Project will strengthen community participation in this effort. * Estimated.	Baseline	1992	----	122,575
		1993	122,300	
		1994	122,050	
		1995	122,000	122,200*

INTERMEDIATE RESULTS INDICATORS

INTERMEDIATE RESULT: Improved management and protection of Canal Watershed and national parks				
Indicator 1: All waterways and forested areas in Canal Watershed declared legally protected areas				
Unit: hectares (cumulative)		Year	Planned	Actual
Source: GOP reports	Baseline	1990	156,000	
Comments: The final target of 245,000 has. depends on the legal protection of 40,000 has. of land on the western bank of the Panama Canal. This land is to be included in the proposed Interoceanic National Park. The Park has been technically endorsed by INRENARE but has not been formally declared by the National Assembly and is surrounded by some controversy. A study by the IDB for ARI will assist in resolving the issue. ARI's announcement to reforest 3,400 has. of this land using the private sector is an encouraging first step. USAID efforts have assisted to survey and demarcate 3 of 5 watershed national parks. Construction of park guard stations and housing facilities within these parks and the development and standardization of park management plans will strengthen protection efforts.		1991	156,000	156,000
		1992	205,000	205,000
		1993	205,000	205,000
		1994	205,000	205,000
		1995	205,000	205,000
		1996	205,000	205,000
Indicator 2: Annual number of surveillance patrols conducted in Canal Watershed				
Unit: # park ranger patrols conducted each year		Year	Planned	Actual
Source: GOP reports	Baseline	1993	1,623	-
Comments: An increase in actual patrols was noted for 1994 and 1995. This is due to better support and training for park rangers, strengthening their ability to perform their jobs.		1994	1,700	1,790
		1995	1,850	3,402
		1996	1,950	

Indicator 3: Annual number of citations issued to enforce regulations protecting National Parks				
Unit: # citations		Year	Planned	Actual
Source: GOP reports	Baseline	1993	93	76
Comments: Citations issued are a function of increased patrols (indicator 2) and are greater than planned for 1994 and 1995. Citations penalize such activities as illegal wood cutting and subsistence agriculture. The number of citations should decrease in future years as potential offenders become more aware of increased enforcement within the clearly marked boundaries of the Parks.		1994	80	91
		1995	90	183
		1996	105	

Indicator 4: Funding disbursed from Environmental Trust Fund to NGOs, 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: A Panamanian NGO, NATURA, administers the Environmental Trust Fund. The Trust Fund, established in 1995, was capitalized with \$8 million from USAID, \$2 million from The Nature Conservancy and \$15 million from the Government of Panama. In its first six months, Trust Fund investments generated over \$1,600,000 in additional resources. The first projects were approved in September, 1995. In addition to the \$700,000 (\$318,000 in the watershed) approved for environmental activities in the NGO sector, \$700,000 will be used by INRENARE for expenses related to the protection of natural resources. The remainder of generated funds will be distributed during the next selection cycle.		1995	700	700
		1996	1,200	

Indicator 5: Land area in canal watershed reforested with funds from the Environmental Trust Fund				
Unit: hectares planted per year		Year	Planned	Actual
Source: Audits, NGO reports	Baseline	1994	0 - New Activity	----
		1995	10	----
Comments: The approval of the first grants from the Trust was made in September, 1995. These grants will allow for the reforestation of 170 has. in the canal watershed. Due to weather patterns, this land could not be planted by the end of the calendar year but will be planted at the beginning of the next rainy season in May, 1996.		1996	500	

Environmental Trust Fund: -- UPDATE --

- The USAID and the GOP established a \$25 million Environmental Trust Fund (FIDECO) to provide a long term source of funding for the maintenance and operation of national parks and support environmental activities of PVOs, community groups and educational entities. Of the funds in this Trust, \$8 million was contributed by USAID, \$2 million from The Nature Conservancy and \$15 million from the Government of Panama. By the end of 1995 this Trust Fund generated over \$1,600,000.

- NATURA conducted the first selection round of grants in September 1995. NATURA received and reviewed 106 requests for financing of which 13 grants were approved representing approximately \$700,000.

- Of the 13 approved grants, 6 projects with a total value of over \$366,000 are for direct use in the Panama Canal Watershed, 2 for research, 1 for tourism activities, 1 for the rehabilitation of degraded areas and 2 for reforestation work. A brief description of these projects and their implementing organizations follows:

a. "An Inventory of Amphibians and Reptiles, Initial Phase to Conserve These Species in Altos de Campana National Park." A study to identify and propose measures to protect amphibians and reptiles in this park. Herpetological Society of Panama (\$19,900 FIDECO funds and \$15,100 counterpart);

b. "Cultivation of Native Trees in Panama: Collection, Germination, Seed Viability and Propagation of Plants

of Little Known Species." An effort to collect and grow local trees species which are not widely utilized. Smithsonian Tropical Research Institute (\$47,300 FIDECO funds and \$16,600 in counterpart);

c. "A Visitor's Center in the Natural Monument of Barro Colorado." Converting unused facilities on this island/scientific research facility owned by the Smithsonian Tropical Research Institute into a tourist center for increasing numbers of local and international visitors. Smithsonian Tropical Research Institute (\$51,700 FIDECO funds and \$54,000 counterpart);

d. "Identification and Planning of the Management of Critical Areas with Potential for the Creation of Protected Forest Areas and the Execution of Reforestation Projects with the Objective to Protect the Canal Watershed." To identify critical ecological areas of the Watershed and to develop project profiles for soil conservation and reforestation purposes. Organization of Registered Agronomists of Panama (\$17,600 FIDECO funds);

e. "Reforestation Program in the Soberania National Park, Southeast Sector." To reclaim 150 has. of degraded lands in this park using community participation. National Association for the Conservation of Nature (\$50,500 FIDECO funds and \$62,400 counterpart); and

f. "Recuperation of Degraded Areas of the Altos de Campana National Park". To reforest using community participation 20 has. of deforested and eroded land in this National Park. TECHNOSERVE (\$31,000 FIDECO funds and \$1,500 counterpart funds).

b. Analysis

- After September 30, 1996, Environmental Protection of the Panama Canal Watershed will constitute our sole Strategic Objective.
- In 1995, USAID Panama, with the concurrence of USAID Washington, concentrated MARENA project environmental protection efforts within the Panama Canal Watershed. Based on this decision, USAID developed a revised financial and implementation plan for the MARENA project which INRENARE reviewed and approved in August 1995.
- Also in 1995, USAID established the \$25 million Environmental Trust Fund (FIDECO) to provide a perpetual source of funding for the protection, maintenance and operation of the Panama Canal Watershed and other priority areas. The Trust Fund finances environmental protection efforts of Panamanian NGOs, community groups and educational entities.
- Trust Fund Investments have so far generated over \$1,600,000 in new resources. In 1995, the Fund received 106 requests for financing from Panamanian NGOs. The Fund's Board and technical committee approved 13 grants totalling approximately \$700,000. An additional \$700,000 will support INRENARE protection efforts within the Panama Canal Watershed and natural parks.
- USAID helped the GOP survey and demarcate three national parks (Altos de Campana, Soberania, and Camino de Cruces) within the Canal Watershed. These parks have a combined area of 30,000 hectares.
- USAID approved plans to construct guard posts, field housing and other INRENARE support facilities in the Canal Watershed parks of Soberania, Chagres, Camino de Cruces, Gatun and Altos de Campana.
- The Smithsonian Tropical Research Institute and INRENARE submitted a joint proposal to USAID for the establishment of a comprehensive environmental monitoring system for the Canal Watershed. Key indicators include forest cover, water quality, erosion, siltation, demographic pressure and biodiversity.
- INRENARE conducted 3,400 surveillance patrols and issued 183 citations in the Canal Watershed national parks.

- Under the CLASP II regional training project, a group of 44 participants returned from a three-month solid waste management course in the U.S. and established a support network which includes Panamanian NGOs, municipal authorities and provincial governors. Results so far include a community fair promoting solid waste disposal, presentations at primary and secondary schools, and projects designed to reduce the volume of solid waste at the municipal level.
- Two participants from the Kuna Yala Indian Reservation developed an action plan to address waste management issues in their community. The Kuna Yala Reservation is a popular tourist destination, but inadequate waste disposal practices have begun to destroy the rich marine resource base.

c. Expected Progress

- The MARENA project will fund INRENARE and NGO reforestation of 700 hectares in the Canal Watershed.
- Construction of guard facilities will continue in the five national parks of the Canal Watershed.
- USAID will finance a review of existing GOP regulations which promote private sector reforestation through tax credits. Follow-up activities will be undertaken as needed to familiarize land owners and other potential investors with these incentives. USAID will support efforts by ARI and private groups to reforest 3,400 has. of reverted lands.
- The Environmental Trust Fund will disburse about \$1,200,000 to NGOs, community associations and other entities to support reforestation and conservation efforts.
- USAID will refocus the CLASP II regional training project to concentrate entirely on environmental protection of the Canal Watershed. Indigenous groups, such as the Ngobe Buglé, the Emberá and the Kuna Yala, whose reservations lie outside the Watershed, will participate as trainers in Watershed forest management.
- The Municipal Development project will focus exclusively on Canal Watershed protection after 30 September 1996. Panamanian municipalities provide the most direct and efficient way of working with communities within and around the Watershed. Community participation in Watershed reforestation and protection is essential to long-term progress toward achievement of our strategic objective.

B. DONOR COORDINATION

The Inter-American Development Bank (IDB) is the lead donor in Panama, with a projected \$900 million loan program over the next several years. The IDB is optimally positioned to move into sectors which USAID has left or will soon leave. These include: financial management reform, administration of justice and economic policy development. USAID/IDB coordination efforts ensure continuity between prior accomplishments in these sectors and future plans.

The IDB also provides loan funding for major new initiatives in rural road construction, energy development, agriculture, secondary and technical education, health services, housing and improved systems for urban potable water and sanitation. IDB leadership is critical to future development of internationally recognized Environmental Impact Analysis for GOP and private sector road construction, mining and other development. In addition, the IDB has played a key role in helping the GOP develop general use and regional plans for the reverted areas.

In 1995, the IDB disbursed \$91 million in loan funding to the Government of Panama. During this period, GOP repayments of IDB loans totalled \$60 million.

In 1995, The World Bank provided a \$25 million rural health loan and a \$40 million loan for primary and secondary education. A \$30 million economic recovery loan is pending.

Germany, Spain, the European Union and Japan provide a total of approximately \$40 million annually in grant assistance. All are involved to some extent in supporting environmental protection, although none has focused its assistance upon the Panama Canal Watershed. German social scientists, conducting field work among indigenous populations, are in a position to monitor the impact of mining, road and other development projects on these cultures.

In November 1995, the International Monetary Fund (IMF) approved a stand-by credit for Panama that authorizes drawings up to the equivalent of SDR69.8 million (about \$104 million), for a sixteen month period in support of the GOP's economic and financial program. Of this amount, 25% of each drawing will be set aside to finance debt and debt-service reduction operations.

Panama's total line of credit quota with the IMF is SDR149.6 million (about \$224 million), and its outstanding use of IMF credits currently totals SDR67 million (about \$100 million). The IMF is prepared to increase the amount of its stand-by credit upon Panama's conclusion of financing arrangements with its commercial bank creditors (a "Brady Plan Deal") and the IMF's own

determination that such arrangements are consistent with the objectives of the program.

C. SUMMIT OF THE AMERICAS - UPDATE

USAID/Panama's Strategic Objectives - "To Strengthen Civilian Government Institutions and Encourage Greater Citizen Participation" and "To Protect the Canal Watershed and other National Resources" - contribute to the initiatives discussed at the Summit of the Americas. 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

USAID/Panama has helped establish more effective management system within the courts, the Public Ministry (prosecution), and the public defenders' service related to criminal case management.

USAID supported four sets of activities to reduce the percentage of detainees awaiting trial beyond legally required deadlines.

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. The new system is now fully implemented, in manual form, on a nationwide basis. Automation of the system, begun in February, 1996 and will criminal courts, prosecutors offices and administrative sections, at all levels (municipal, circuit, superior, and Supreme Court and Attorney General).

2. Integration of the daily work of prosecutors with that of police investigators began in January, 1996. Functional integration of investigative functions of the Judicial Technical Police (PTJ) with those of the Attorney General's Office has been completed in three of the four Judicial Districts. USAID also helped streamline case processing within the Auxiliary Attorney's Office (which handles the preliminary stages of the proceedings). Bureaucratic steps have been reduced from 25 to 10. An office to centralize "complaints and charges" was created for the efficient receipt and distribution of cases to the proper offices. An evidence control system is in place to properly account for the preservation and filing of evidence and their correlation to each file. Finally, accurate statistical reporting in the Public Ministry and prisoner status monitory data correlated to

prosecutors' actions provide a useful tool to manage cases within the mandated legal timeframes.

3. Under the third component, the Judicial School provides continuous training for officials at all levels of the courts, Public Ministry, and public defenders service. The project sponsors a community legal education program conducted by a Panamanian NGO and focussed on adult grassroot members of the communities as well as high school students. The Public Ministry began a weekly-one hour program on educational television channel ("Justice for all") which provides basic information in lay terms as the responsibilities of that office and the community regarding the proper compliance of law. Judicial congresses were also sponsored for judges, prosecutors and public defenders, providing the necessary forum to debate pressing legal and procedural issues on the Administration of Justice. This has given exposure on international trends on similar issues, and has allowed for informal collaboration on coordinated actions.

4. USAID has helped staff and train the public defender system. This should contribute to greater equity and efficiency in the conduct of criminal proceedings and to improved public perception of the criminal justice process.

Other progress include the following:

- Major judicial reforms came into effect with Law #1 of 1995, calling for legal mechanisms to expedite the processing of cases. Proceedings now include direct hearings and abbreviated trials typical of the U.S. legal system.

- USAID helped draft legislation making domestic violence a crime and simplifying the processing of these cases. The draft included substantial reforms to the Criminal Code regarding sexual crimes. This drafted was approved by the Legislative Assembly, signed into law by the Executive and came into effect in June, 1995.

- Intellectual property rights (IPR) violations have been incorporated in the recently drafted judicial reform bill. It is now a crime subject to investigation without private prosecution complaint.

Summit Principal: To Guarantee sustainable Development and Conserve Our Natural Environment for Future Generations

Strategic Objective 2: Improve Management and Protection of the Canal Watershed

The continued operation of the Panama Canal depends on a continuous and abundant source of fresh water. In the past, access to the watershed was strictly controlled. This ensured the existence of tropical forests which are rich in biodiversity and home to a wide array of tropical ecosystems. USAID supports the GOP and private organizations in the protection of natural resources with emphasis on the Canal Watershed. Most of this assistance is provided through the Natural Resources Management Project (MARENA) but additional resources have been focused through the Municipal Development Project and the CLASP-II training activity. All three projects support the Summit Initiatives and the CONCAUSA Accords. The following discussion on USAID/Panama activities are 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):

Of the 326,000 has in the Panama Canal Watershed, over 205,000 have been declared legally protected areas in five national parks. INRENARE cannot at present effectively protect and manage these and other parks. USAID support is helping to improve INRENARE's management and operations through training of personnel, construction of guard stations and park housing facilities for forest guards and procurement of equipment to increase park/reserve protection. USAID also helps survey and demarcate the principal national parks in the Canal Watershed.

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

Through the MARENA Project, USAID is providing funding for a joint INRENARE-Smithsonian Tropical Research Institute initiative to establish a long term monitoring system for the Canal Watershed. Once established, the system will be turned over to INRENARE for continued monitoring. The system will measure changes in plant and animal populations, forest cover, water sedimentation and pollution rates to determine the biological health of the Watershed and to allow decision makers to formulate rational policies. The Environmental Trust Fund supports biological inventories and agro-forestry research in buffer areas within the Watershed.

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

USAID supports INRENARE and the NGO community through the Environmental Trust Fund as described in paragraph 4 below. In addition, 44 participants, including teachers and other representatives of the public sector, received training in solid waste management.

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

USAID will include representatives of indigenous communities as trainers in all environmental training activities. While indigenous communities are not a specific target of Trust Fund activities, resources will be made available to encourage them to work in the project area.

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. However, efforts in coastal zone management are being addressed through the regional PROARCA project and Mission staff will continue to monitor and track these activities.

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

USAID has financed Geographic Information System equipment and training for INRENARE and ARI. Additional training in GIS operation will be provided through the grant to the Smithsonian Tropical Research Institute for biological monitoring. USAID/Panama is also working with the Regional Mission in Guatemala to coordinate information on the Central American Biological Corridor through the PROARCA project.

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

The Smithsonian Tropical Research Institute is a key partner in protection of the Canal Watershed and the center of the research network. The CLASP II training program will expose Panamanians to U.S. centers of environmental research.

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

USAID helps INRENARE improve management and operations, train personnel, construct guard facilities and procure equipment to increase park protection. The Environmental Trust Fund helps

environmental NGOs strengthen their abilities and increase field activity.

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

The Environmental Trust Fund and CLASP II program fund specific projects by NGO's and local community leaders.

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

The Mission coordinates with the Inter-American Bank through formal monthly meetings and regular informal contact. USAID officials are in frequent contact with World Bank representatives and the UNDP. The IDB is currently assisting the GOP in the development of Environmental Impact Analysis for large road projects.

11. Give training to professionals interested in the conservation of biodiversity and management of natural resources.

USAID provides training to INRENARE staff as part of MARENA project and to NGOs and communities through the Environmental Trust Fund. The CLASP II project is being refocused to concentrate entirely on natural resources management.

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 training programs in fire fighting. Regional programs are providing additional training in this area.

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

USAID/Panama has worked with the Regional Mission in Guatemala under the RENARM project to address these policies. This coordination is expected to continue under the regional PROARCA activity. Strengthening of host country capability to carry out environmental impact analysis for road construction, mining, hydro-electric development and other large scale investments remains a top priority.

14. Support national programs of reforestation and forestry management:

The Environmental Trust Fund has provided funds for the reforestation of land in the Canal Watershed and buffer areas. USAID funds are being used to revise national park management plans which will include reforestation efforts in five watershed national parks. USAID funds will also be used to reforest land in national parks and buffer areas and Mission personnel are monitoring the work of ARI in the development of reforestation plans for reverted areas.

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

Such a relationship has been established with the Texas Department of Forests and Grasslands.

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

A comprehensive monitoring system will be established by the Smithsonian Tropical Research Institute which will address these issues in the Canal Watershed. USAID/Panama activities do not focus on coastal zones nor marine areas. However, the regional PROARCA project will assist in the management of coastal zone issues.

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:

Training provided through the purchase and use of GIS equipment and the establishment of the Smithsonian biological monitoring system of the Canal Watershed. The U.S. Department of Agriculture is working closely with the STRI to monitor screw worm infestation in the Darien area of Panama.

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

Support provided through the Ecological Trust Fund where improved methodologies and pilot activities are sought and funded.

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

USAID/Panama is supporting the efforts of the Regional Mission and Central Bureau in this area. The Smithsonian Institution and the Audubon Society work closely with USAID as well.

III. STATUS OF THE MANAGEMENT CONTRACT

A. STRATEGIC OBJECTIVE CHANGES AND REFINEMENT

(1) Introduction

Given continuing foreign assistance budget reductions, LAC Bureau Senior Management has instructed USAID to prepare an exit strategy. This Mission strategy calls for the close down of all bilateral USAID operations in Panama by September 30, 1999. To accomplish this, the following programmatic actions will be taken:

- the two (2) strategic objectives (i.e., "To Strengthen Civilian Government..." and "To Protect the Panama Canal Watershed...") will be reduced to one (1) (i.e., "To Improve Management and Protection of Canal Watershed") by the end of FY 96. Implementation of activities in support of the "Panama Canal Watershed" Strategic Objective will be completed by the end of FY 99.

- A Special Objective i.e, "To Facilitate the Transfer of the Panama Canal and Productive Use of the Reverted Properties in the Canal Area", is proposed. No new funding for activities in support of the Special Objective will be requested after FY 97, but USAID will continue to use pipeline funds to address this objective until the end of FY 1999.

The proposed changes and refinements for the USAID/Panama FY 97 through FY 99 program are presented below.

(2) Strategic Objective: To Improve Management and Protection of the Canal Watershed.

Results Framework: The Development Hypothesis.

The long term viability of the Panama Canal could be jeopardized by continuing deforestation of the Panama Canal Watershed. The Watershed includes legal as well as squatter communities, many of which are engaged in subsistence agriculture.

Unmanaged human intervention in the Watershed escalates deforestation, soil erosion and siltation of the large, fresh-

water lakes which are necessary for the viability of the Canal. USAID/Panama will focus most Mission resources starting in FY 97 on the single Strategic Objective of Protecting the Watershed. The CLASP II training project and the Municipal Development Project are vital to this effort. The Municipal Development Project targets development of four municipalities within the Watershed which have a critical role to play in its protection. The Peace Corps, the Inter-American Development Bank, the Smithsonian Institute, international and local environmental NGOs, the GOP and elements of the Panamanian private sector are close partners in this endeavor. The results framework and related performance data tables for this SO reflect this emphasis.

Achievement of S.O.:

The achievement of the S.O. will result in an increase of the forest cover in the Panama Canal Watershed. Intermediate results will include effective management of protected areas; design and implementation of reforestation programs; increased capacity of local institutions to manage natural resources; and decreased environmental contamination in selected municipalities.

Intermediate Result #1.1: Protected Areas Effectively Managed.

The environmental monitoring system to be established by INRENARE with the assistance of the Smithsonian Tropical Research Institute, will provide accurate and timely measurement of key indicators. The survey and demarcation of national parks under the MARENA project and the improvement of ranger stations and facilities in the national parks will provide additional protection. Demarcation of park boundaries will increase awareness of infringement activity. This should improve enforcement of regulations. Improved physical facilities will enable the GOP to maintain a permanent presence in the parks.

Intermediate Result #1.2: Reforestation Programs Designed and Implemented.

Forest management practices are implemented through grants from the Ecological Trust Fund. Grant funds enable local groups to initiate community based activities aimed at increasing incomes and decreasing the need to rely on the forests for revenue. Through the MARENA project, management plans for the five principal parks in the Watershed are being revised with emphasis on the reforestation of the park areas. Training, available through the CLASP II project, is concentrated on natural resources and environmental concerns. Technical assistance is

provided through the MARENA project, Peace Corps volunteers and various environmental NGOs. Financial resources for reforestation programs is provided through the Environmental Trust Fund to environmental NGOs. The MARENA project also provides funds directly for reforestation by NGO's, community groups and INRENARE.

Intermediate Result #2: Capacity of Local Institutions to Manage Natural Resources Increased.

With USAID assistance, the GOP Institute for the Management of Renewable Natural Resources (INRENARE) is developing comprehensive management plans for the five major Watershed National Parks. The Environmental Trust Fund strengthens the capacity of local NGOs. USAID, the IDB and other donors are helping INRENARE and Panamanian NGOs measure the environmental impact of new mining, logging, hydropower and other investments. Little capability now exists within Panama to measure environmental impact.

Intermediate Result #3: Four (4) Municipalities within the Canal Watershed will Establish Waste Disposal Programs.

USAID provided solid waste management training in the United States to 44 community leaders through the CLASP II program. Additional training related to public awareness activities will be funded through the Municipal Development Project and the PROARCA regional project as well as through GLOBAL Bureau programs such as the Environmental Pollution Prevention Project.

RESULTS FRAMEWORK FOR STRATEGIC OBJECTIVE

STRATEGIC OBJECTIVE

Development Hypothesis

Discouraging deforestation, environmental contamination and promoting sustainable development will lessen degradation of forest, soil, water, and conserve biodiversity

TO IMPROVE THE MANAGEMENT AND PROTECTION OF THE PANAMA CANAL WATERSHED

OVERALL RESULT: FOREST COVERAGE INCREASED



IR #1

Watershed Land Use Trends Altered

IR #2

Sustainable natural resource management policies adopted

IR #3

Environmental Contamination decreased

IR #1.1

Protected areas effectively managed

Timeframe: 1995-1998
Partners: INRENARE, STRI, USAID, ARI, NGOs, PCA

IR #2.1

Capacity of local institutions to manage natural resources increased.

Time frame: 1995-1997
Partners: USAID, NATURA, INRENARE, ARI

IR #3.1

Four (4) municipalities with the Canal watershed will establish waste disposal Programs

Time frame: 1995-1999
Partners: USAID, Municipalities, Community organizations.

IR #1.2

Reforestation programs designed and implemented

Timeframe: 1995-1998
Partners: ARI, INRENARE, NGOs, Private Sector

PERFORMANCE DATA TABLE

As of 09/30/95

STRATEGIC OBJECTIVE

TO IMPROVE THE MANAGEMENT AND PROTECTION OF THE PANAMA CANAL WATERSHED

STRATEGIC OBJECTIVE OVERALL INDICATOR: FOREST COVERAGE INCREASED

Key Intermedial Results No. 1: Land Use Trends Altered

Intermediate Result No. 1.1: Protected Areas effectively managed

<i>Performance Indicators</i>	Units	Year									
		1992	1993	1994	1995	1996	1997	1998	1999		
1. All waterways and forested areas in Canal Watershed declared legally protected areas.	<i>Hectares</i>	Plan	205,000	205,000	205,000	205,000	205,000	214,000	214,000	245,000	
		Act.	205,000	205,000	205,000	205,000	205,000				
2. Annual number of surveillance patrols conducted in Canal Watershed national parks.	<i>Number of patrols</i>	Plan	0	Baseline	1,700	1,850	1,950	2,100	2,300	2,400	
		Act.	0	1,623	1,799	3,402					
3. Annual number of citations issued to enforce regulations protecting National Parks.	<i>Number of citations</i>	Plan	0	Baseline	80	90	105	120	135	120	
		Act.	0	76	91	183					
Intermediate Result No. 1.2: Reforestation programs designed and implemented (linked to IR # 1.1)											
4. Land area reforested in the Canal Watershed by private for-profit private sector.	<i>Hectares</i>	Plan	0	Baseline	250	500	800	1,250	1,600	2,000	
		Act.	0	100	254	277					
5. Land area in Canal Watershed reforested by NGOs with funds from Ecological Trust Fund.	<i>Hectares</i>	Plan	0	0	Baseline	10	500	1,000	1,000	1,500	
		Act.	0	0	0	0					
6. Forest cover within the Panama Canal Watershed will increase by approx. 136 hectares as a direct result of CLASP reforestation training.	<i>Hectares</i>	Plan	0	0	0	0	Baseline	25.5	25.5	85	Target
		Act.	0	0	0	0					

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PERFORMANCE DATA TABLE

As of 09/30/95

TO IMPROVE THE MANAGEMENT AND PROTECTION OF THE PANAMA CANAL WATERSHED

OVERALL INDICATOR: Forest Coverage increased

KEY INTERMEDIATE RESULT NO. 3.1: Environmental Contamination Decreased

Intermediate Result No. 3.1: Four (4) municipalities with the Canal watershed will establish waste disposal programs

Performance Indicators	Units	Year				
		1995	1996	1997	1998	1999
1. Number of communities establishing solid waste disposal systems a. Targeted communities in the Watershed	Number	Baseline			Target	
		Plan	0	0	1	1
		Act.	0	0	0	0
2. Increased participation in town meetings	Percentage	Baseline			Target	
		Plan	-	5	5	5
		Act.	0			
3. Increased user satisfaction with municipal services	Percentage	Baseline			Target	
		Plan	-	5	5	5
		Act.	0			
4. Increased municipal revenues	Percentage	Baseline			Target	
		Plan	-	20	20	25
		Act.	0	0	0	

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(3) Special Objective (SpO): To Facilitate the Transfer of the Panama Canal and the Productive Use of the Reverted Properties in the Canal Area

a. The Development Challenge

Under the terms of the 1977 Panama Canal Treaties, the Panama Canal will be completely transferred to the Government of Panama (GOP) on December 31, 1999. The Panama Canal Commission (PCC) has developed a "Milestone Plan" outlining all of the major tasks which must be accomplished by the PCC and by the GOP before December 1999. Annex B. 1 contains a summary of this Plan.

The withdrawal of the U.S. military and the closure of U.S. military bases in the Panama Canal Area during the next three years, will also have a significant impact on the Panamanian national economy. A recent GOP study indicates it will cost the government about \$40 million a year just to guard and maintain the reverted properties, pending their redevelopment for productive use.

Since 1979, about 1,084 buildings have been reverted, covering 8,910 hectares in land area. This contrasts with 3,608 buildings and 28,755 hectares in the reversion pipeline that will be transferred between 1996 and 1999. Consequently, during the last four years of the reversion period, 77% of the buildings and 76% of the land area are scheduled to revert.

Successful transition of the Panama Canal and the productive use of the reverted military properties will require adequate and timely technical assistance.

The Interoceanic Region Authority (ARI) is responsible for the exclusive custody, use and management of areas reverting from the U.S. military. ARI's 1996 Work Plan is summarized at Annex B. 2.

To complement assistance provided by the Inter-American Development Bank which is funding preparation of the General and Regional Plans required by law, ARI has asked USAID's assistance to finance short term targeted technical assistance in order to assess specific projects proposed for reverted properties. Recent examples include proposals for Albrook Air Force Station and Gorgas Military Hospital.

The reverted areas must be gradually integrated into Panama's economic development. The GOP must promote optimal productive use of the reverted areas, while taking into consideration the

pressing social and economic needs of urban slum populations which border, and in some cases infringe upon, the reverted areas.

The 1995 GAO report on base conversions in the U.S. indicated many set-aside programs for the homeless.

Experience elsewhere (Eastern Europe, the Philippines, the United States) with base closings has shown that **successful reconversions of military bases can take from five to ten years, and often do not replace more than one-third of job losses.** This is a much longer time horizon than initially envisioned in the Panama Canal treaty implementation schedule and one that is inconsistent with popular expectations in Panama.

**U.S. MILITARY PROPERTY TRANSFERRED TO
GOVERNMENT OF PANAMA SINCE 1979**

	<u>Buildings*</u>	<u>Hectares</u>
1979-1994 Transfers	420	6,480
1995 Transfers:		
Margarita School Complex	18	
Cristobal School	40	
Buildings, Fort Amador	7	
Fort Gulick (Espinar)	237	140
Fort Davis	362	1,559
TOTAL TRANSFERRED IN 1995	664	2,430 approx.
TOTAL TRANSFERRED SINCE 1979 (through 1995)	1,084	8,910 approx.
TOTAL REMAINING TO BE TRANSFERRED (1996-1999)	3,608	28,755

* Note: Buildings reported in this Table do not include small sheds, utility/transformer sheds, flagpole sites, etc., and sites where buildings have been demolished.

Source: Department of Defense Property Transfer, 1995 to 1999, Center for Treaty Implementation, United States Southern Command.

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**ECONOMIC IMPACT OF
CLOSURE OF MILITARY INSTALLATIONS
(Cash-Flows into the Panamanian Economy)**

	1994	1999	2000
EMPLOYMENT AND EARNINGS:			
Employees			
Non-American Civil Service	4,136	2,611	0
Contract and Concession	8,259		0
Household Servants	2,667		0
Salaries (Millions \$)			
Non-American Civil Service	89.9	59.3	0
Household Servants	8.0	2.7	0
HOUSING MARKET:			
Number of Housing Units			
Occupied by Military Personnel (Average)	1,938	886	0
Rental Income (Million \$)	24	11	0
PERSONAL EXPENDITURES: (Millions \$)			
Housing	24.1	11.0	0
Public Services	6.8	1.9	0
Household Servants	8.0	2.7	0
Food	7.1	2.4	0
Transportation	7.1	2.4	0
Consumer Goods	5.2	1.8	0
Entertainment	13.2	4.5	0
Vehicles	0.7	0.2	0
Cable TV	3.2	1.0	0
Miscellaneous	10.6	3.6	0
Transit Personnel	5.0	5.0	0
Total	91.0	36.5	0
OTHER EXPENDITURES: (Millions \$)			
Official Purchases	47.9	16.7	0

Official Contracts 50.8 12.3 0
DEFENSE SITES REVERSION SCHEDULE, 1995-1999*

Year	Site	Size (Hectares)
<u>1995:</u>	Fort Davis	1,650
	Fort Espinar	139
<u>1996:</u>	Tank Farm	
	Curundu	74
	Empire Range (partial)	4,101
	Fort Amador	84
<u>1997:</u>	Albrook Air Force Station	311
	Ancon-Gorgas Hospital	11
<u>1998:</u>	Panama Canal College	
	Quarry Heights	31
	Herrick Heights/Ancon Communications	
	Morgan Avenue (Quarry Heights)	
	Housing Area	
	Fort Amador Buildings occupied by SouthCom J-Staff	
	East Corozal (except Veterinary Clinic and Military Bank)	
<u>1999:</u>	Empire Range (Remainder)	6,977
	Marine Barracks complex	114
	Balboa Elementary School	
	Balboa High School	
	Curundu Middle School	
	Rodman Naval Station	243
	Galeta Island communication facility	
	Semaphore Hill site (part of Caribbean Basin Radar Network)	
	Rodman Ammunition Supply Point	
	Cocoli Housing Area	59
	Communication site at Fort Davis	
	East Corozal Training Center	
	Fort Sherman	9,356
	Pina Training Area	
	Fort Kobbe	2,104
	Corozal	130
	East Corozal Veterinary Clinic and Military Bank buildings)	
	West Corozal	
	Corozal Commissary	
	Cerro Gordo Communication Site	
	Ancon Hill Communication Site	
	Curundu Laundry Building	
	Howard Air Force Base	2,139
	Balboa West Range	13

Farfan Housing Area	332
Chiva Chiva Antenna Farm	
Fort Clayton	883
Building 1501 at Balboa/Pier 18 (Military Management Traffic Commander)	
Total	28,751

* Current as of 29 Sept.95. Names in bold type comprise major installations/bases.

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USAID has identified a number of critical constraints which must be overcome to achieve the Mission Special Objective (SpO): **To Facilitate the Transfer of the Panama Canal and the Productive Use of the Reverted Properties in the Canal Area.** The GOP faces a number of specific challenges:

- Insufficient access to marketing information and networks;
- Insufficient expertise in highly specialized areas, particularly in allocating "real market" value estimates to reverted properties;
- Limited time to solve multiple, diverse and complex management tasks.

While not exhaustive, this list does represent a set of problems which:

- can be comprehensively **addressed** over a three to four year period with \$6-7 million in U.S. technical assistance.
- fits well within USAID's stated hierarchy of objectives and strategies;
- comprises areas in which American experience and skills have distinct, comparative advantages; and,
- is not currently being dealt with in an adequate fashion by other donors.

b. Results Framework: The Development

Hypothesis

Two GOP institutions are critical to successful implementation of the Canal transfer and productive use of the reverted areas. The **Interoceanic Regional Authority (ARI)** is now operational. The Panama Canal Authority (ACP) should be in place by January 1997. In the meantime, the Panama Canal Transition Commission (PCTC) is in charge of GOP preparations.

By law, ARI must adopt by 1997 a General Plan and a Regional Plan for the economic and social development of the interoceanic region. The IDB has provided technical assistance for this effort.

A USAID cooperative agreement with Fundacion ANDE, a Panamanian

Chamber of Commerce subsidiary, can help ARI improve the overall investment climate for the reverted areas. Specific tasks include simplifying and harmonizing the public registry, establishing requirements for eco-tourism, protecting intellectual property rights and streamlining procedures for processing exports and investments.

The GOP must make sure that financial systems developed by ARI, ACP and other public sector entities are in harmony with the new GOP comprehensive financial system developed under USAID's Improved Financial Management Project (RAF). USAID will work closely with ARI, ACP and others to bring this about.

Recommendations:

USAID/Panama will act as a facilitator/catalyst in those areas of expertise where we have a comparative advantage as a donor. Since we provide grant-funded assistance and already have technical assistance contracts in place, we can help speed up the reversion process and improve the final results.

USAID/Panama has designed a Results Framework for the achievement of the Special Objective. A single end result has been identified: **Economic Contribution of the Reverted Areas will attain by December 31, 1999 a Level Equivalent to 50% that of December 1994.** Six intermediate results have been identified:

- General development plan for the interoceanic region adopted.
- ARI's institutional capacity strengthened and asset disposition plan operational.
- Public policies and regulations for investment development adopted.
- GOP administrative procedures for investment and business--related activities streamlined.
- Transition Commission and its successor, the Panama Canal Authority, develop policies and regulations to assume full Canal management and operations.
- Financial management systems at ARI, ACP and INRENARE in harmony with GOP's new Comprehensive Financial System.

These intermediate results together with some of the intermediate

results of Strategic Objective will provide the necessary framework to achieve the Special Objective: To Facilitate the Transfer of the Panama Canal and the Productive Use of Reverted Properties in the Canal Area.

RESULTS FRAMEWORK FOR SPECIAL OBJECTIVE

Development Hypothesis

By strengthening ARI and DCP Institutional capacity to effectively achieve their mandate, will serve as a bases for sound decision-making on the use of the reverted assets.

SPECIAL OBJECTIVE

TO FACILITATE THE SMOOTH TRANSFER OF THE PANAMA CANAL AND THE PRODUCTIVE USE OF REVERTED PROPERTIES IN THE CANAL AREA

SPECIAL OBJECTIVE OVERALL INDICATOR

Economic contribution of Reverted Areas attains by December 31, 1999, a level equivalent to at least 50% of level attributable to U.S. Military Presence in December 1994.

IR #1
 General development plan for the inter-oceanic region adopted.
 Timeframe: 1995-1996
 Partners: ARI, USAID, IDB

IR #2
 ARI's institutional capacity strengthened
 Timeframe: 1995-1997
 Partners: ARI, USAID, ANDE

IR #3
 Public policies and regulations for investment development adopted.
 Timeframe: 1995-1996
 Partners: ARI, MIPPE, ANDE, USAID and Legislative Assembly

IR #4
 GOP's administrative procedures for investment and business-related activities streamlined.
 Timeframe: 1995-1997
 Partners: ARI, ANDE, MIPPE, USAID

IR #5
 TC and new Panama Canal Authority develops policies and regulations to assume full Canal management and operations.
 Timeframe: 1995-1998
 Partners: CTC/PCA, Leg. Assembly, MIPPE, USAID

IR #6
 Financial systems in ARI, PCA and INRENARE harmonized with GOP new comprehensive system.
 Timeframe: 1995-1997
 Partners: CGR, MIPPE, MHT, ARI, CTC/PCA, IDB, INRENARE, USAID.

a) Legislative Assembly approves Master Plan for land use in the Canal Watershed.
 Timeframe:
 Partners: ARI, INRENARE, IDB, Legislative Assembly

b) Inter-Institutional Technical Commission (ITC) becomes functional and proactive.
 Timeframe:
 Partners: USAID, GOP entities

c) Municipalities in or around the Watershed strengthened and contributing to environmental protection.
 Timeframe:
 Partners: USAID, ANUPA, MIPPE, MGJ

d) Policy/regulations for economic and social development within the Watershed adopted.
 Timeframe:
 Partners: ARI, INRENARE, MIPPE, Legislative Assembly.

Strategic Objective Linkage
 Intermediate Results



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PERFORMANCE DATA TABLE

As of 09/30/95

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SPECIAL OBJECTIVE

TO FACILITATE THE SMOOTH TRANSFER OF THE PANAMA CANAL AND THE PRODUCTIVE USE OF REVERTED PROPERTIES IN THE CANAL AREA

OVERALL RESULT: Economic Contribution of Reverted Areas attains by December 31, 1999, a level equivalent to at least 50% of level attributable to U.S. Military Presence in December 1994.

Performance Indicators	Units		YEAR						
			1994	1995	1996	1997	1998	1999	Com.
1. New Jobs Created (offsetting those jobs lost due to U.S. military base closures) Total jobs in 1994: 15,000	<i>Thousands</i>	Plan	Baseline	600	600	1,200	2,400	Target 5,200	10,000
		Act.							
2. Additional Wages Generated (offsetting wage income lost due to U.S. military base closures). Total wages in 1994: \$95 million	<i>Millions</i>	Plan	Baseline	3.8	3.8	7.6	15.2	Target 32.9	63.3
		Act.							
3. New Expenditures Generated (contribution to GDP) (offsetting expenditures lost due to military base closures) Total expenditures in 1994: \$250 million	<i>Millions</i>	Plan	Baseline	3.0	10.0	35	35	Target 125	125
		Act.							

PERFORMANCE DATA TABLE

As of 09/30/95

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SPECIAL OBJECTIVE

TO FACILITATE THE SMOOTH TRANSFER OF THE PANAMA CANAL AND THE PRODUCTIVE USE OF REVERTED PROPERTIES IN THE CANAL AREA

OVERALL RESULT: Economic Contribution of the Reverted Areas attains by December 31, 1999 level equivalent to at least 50% of level attributable to U.S. Military Presence in December 1994

Intermediate Result No. 1: General Development Plan for the Interoceanic Region Adopted

Performance Indicators	Units		YEAR					
			1994	1995	1996	1997	1998	1999
1. Draft Legislation for Interoceanic General and Regional Plans submitted to Legislative Assembly	Year	Plan		Baseline		Target		
		Act.		-		1997		
2. Interoceanic General and Regional Plans passed as Law.	Year	Plan		Baseline		Target		
		Act.		-		1997		

PERFORMANCE DATA TABLE

As of 09/30/95

SPECIAL OBJECTIVE

TO FACILITATE THE SMOOTH TRANSFER OF THE PANAMA CANAL AND THE PRODUCTIVE USE OF REVERTED PROPERTIES IN THE CANAL AREA

OVERALL RESULT: Economic Contribution of the Reverted Areas attains by December 31, 1999 a level equivalent to at least 50% of level Attributable to U.S. Military Presence in December 1994.

INTERMEDIATE RESULT NO. 2: ARI's Institutional Capacity Strengthened

Performance Indicators	Units		YEAR					
			1994	1995	1996	1997	1998	1999
1. Reverted Area Asset Disposition Plan Initiated and ongoing	Year	Plan		Baseline		Target		
		Act.		-			1997	
a. Fort Amador	Year	Plan		Baseline		Target		
		Act.		-			1997	
b. Albrook Airport	Year	Plan		Baseline		Target		
		Act.		-			1997	
c. Gorgas Hospital Installations	Year	Plan		Baseline		Target		
		Act.		-			1997	
d. City of Knowledge	Year	Plan		Baseline			Target	
		Act.		-			1998	
2. Multi-year Agreement with IESC signed	Year	Plan		Baseline		Target		
		Act.		-			1997	
a. Consultancies Initiated	Year	Plan		Baseline		Target		
		Act.		-			1997	
b. Networking Plan developed	Year	Plan		Baseline		Target		
		Act.		-			1997	
c. Outreach Plan between ARI and European IESC-like organization	Year	Plan		Baseline			Target	
		Act.		-			1998	

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PERFORMANCE DATA TABLE

As of 09/30/95

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SPECIAL OBJECTIVE

TO FACILITATE THE SMOOTH TRANSFER OF THE PANAMA CANAL AND THE PRODUCTIVE USE OF REVERTED PROPERTIES IN THE CANAL AREA

OVERALL RESULT: Economic Contribution of the Reverted Areas attains by December 31, 1999, a level equivalent to at least 50% of level attribute to U.S. Military Presence in December 1994.

Intermediate Result No. 3: Public Policies and Regulations for Investment Development Adopted.

Performance Indicators	Units		YEAR					
			1994	1995	1996	1997	1998	1999
1. Framework Law to Modernize the Public Registry passed	Year	Plan		Baseline		Target		
		Act.				1997		
2. Framework Law for Eco-tourism passed	Year	Plan		Baseline		Target		
		Act.				1997		
3. New Law to Protect Intellectual Property Rights passed	Year	Plan		Baseline		Target		
		Act.				1997		

PERFORMANCE DATA TABLE

As of 09/30/95

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SPECIAL OBJECTIVE

TO FACILITATE THE SMOOTH TRANSFER OF THE PANAMA CANAL AND THE PRODUCTIVE USE OF REVERTED PROPERTIES IN THE CANAL AREA

OVERALL RESULT: Economic Contribution of Reverted Areas attains by December 31, 1999 a level equivalent to at least 50% of level attributable to U.S. Military Presence in December 1994

Intermediate Result No. 4: GOP's Administrative Procedures for Investment and Business-related Activities Streamlined

Performance Indicators	Units		YEAR					
			1994	1995	1996	1997	1998	1999
1. Plan to Modernize the Public Registry prepared and implemented	Year	Plan		Baseline		Target		
		Act.				1997		
2. One-Stop Window for Investment Development installed	Year	Plan		Baseline		Target		
		Act.				1997		
3. One-Stop Window for Exports installed	Year	Plan		Baseline		Target		
		Act.				1997		
4. Customs Procedures for Imports streamlined	Year	Plan		Baseline		Target		
		Act.				1997		

PERFORMANCE DATA TABLE

As of 09/30/95

SPECIAL OBJECTIVE

TO FACILITATE THE SMOOTH TRANSFER OF THE PANAMA CANAL AND THE PRODUCTIVE USE OF REVERTED PROPERTIES IN THE CANAL AREA

OVERALL RESULT: Economic Contribution of the Reverted Areas attains by December 31, 1999, a level equivalent to at least 50% of level attributable to U.S. Military Presence in December 1994.

Intermediate Result No. 5: The Transition Commission, and subsequently, the Panama Canal Authority, develop policies and Regulations to Assume full Canal Management and Operations.

Performance Indicators	Measure		YEAR					
			1994	1995	1996	1997	1998	1999
1. Organic Law for new Panama Authority (ACP) passed	Year	Plan		Baseline		Target		
		Act.				1997		
2. Personnel Policies and Regulations developed	Year	Plan		Baseline		Target		
		Act.				1997		
3. Procurement Policies and Regulations developed	Year	Plan		Baseline		Target		
		Act.				1997		
4. Toll and Financial Policies developed	Year	Plan		Baseline			Target	
		Act.					1998	
5. Other Administrative Policies developed	Year	Plan		Baseline			Target	
		Act.					1998	

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PERFORMANCE DATA TABLE

As of 09/30/95

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SPECIAL OBJECTIVE

TO FACILITATE THE SMOOTH TRANSFER OF THE PANAMA CANAL AND THE PRODUCTIVE USE OF REVERTED PROPERTIES IN THE CANAL AREA

OVERALL RESULT: Economic Contribution of the Reverted Areas attains by December 31, 1999, a level equivalent to at least to 50% of level attributable to U.S. Military Presence in December 1994

Intermediate Result No. 6: Financial Management Systems at ARI, ACP and INRENARE developed in harmony with GOP new comprehensive Financial System.

Performance Indicators	Units		YEAR					
			1994	1995	1996	1997	1998	1999
1. Harmonized Financial System implemented at ARI	Year	Plan Act.		Baseline		Target		
						1997		
2. Harmonized Financial System developed for ACP (for future implementation)	Year	Plan Act.		Baseline		Target		
						1997		
3. Harmonized Financial System implemented at INRENARE	Year	Plan Act.		Baseline		Target		
						1997		

(4) 22 CFR 216 Issues.

There are no issues related to the implementation of requirements under 22 CFR 216.

IV. RESOURCES REQUIREMENTS

A. PROGRAM FUNDING REQUEST BY STRATEGIC OBJECTIVE AND SPECIAL OBJECTIVE

USAID's strategic and special objectives support overall U.S. Foreign Policy Goals in Panama. These objectives also support the Agency's goals to preserve natural resources and to build democracy. Progress to date in support of these goals and objectives is documented in the appropriate sections of this report.

In the 1996-97 Action Plan, USAID/Panama requested Program Resources of \$6.3 million annually for FY 1996 and FY 1997. For FY 1996, \$3.5 million has been made available, representing a 44% reduction below our request. The current FY 1997 planning level of \$2.8 million represents a 56% reduction. As a result of deep cuts during the past two years, USAID/Panama curtailed important planned activities in FY 1995 and FY 1996. We shelved the PVO support project which would have been the keystone of our New Partnerships Initiative and a Family Planning grant which could have reduced demographic pressure on the Panama Canal Watershed. Beginning in FY 1997, USAID will further reduce the scope of its program by focussing on one Strategic Objective and one Special Objective. The proposed funding levels for FY 1997 and FY 1998, at \$2.8 million and \$2.5 million respectively, are inadequate for full achievement of these objectives but we will work closely with the IDB and other donors to "leverage" their resources where we can. USAID will require a minimum of \$5.0 million for FY 1997 and \$5.0 million for FY 1998 distributed as follows:

	<u>ESTIMATED</u> <u>FY 96</u>	<u>PROPOSED LEVELS</u>	
		<u>FY 97</u>	<u>FY 98</u>
SO	2.2	3.0	4.0
SpO	<u>1.3</u>	<u>2.0</u>	<u>1.0</u>
Total	<u>3.5</u>	<u>5.0</u>	<u>5.0</u>

(1) Requirements for the SO - "To Improve Management and Protection of Canal Watershed".

As of December 31, 1995, \$1.4 million was unearmarked under the MARENA project, 1.2 million unearmarked under the Municipal Development Project and \$872,000 unearmarked under the CLASP project. For a total of \$3,472,000 available funds under the SO.

Proposed funding levels would add an additional \$9,200,000 total for the SO in FY 96, FY 97, and FY 98. The total amount of unearmarked and additional funds for the achievement of SO for these years is projected at \$12,672,000.

These funds would be utilized as follows: - \$1.5 million for community reforestation through the MARENA project; - \$3.0 million for INRENARE including (\$1.0 million for National Park reforestation and - \$2.0 million for other activities contemplated under the MARENA project); - \$2.0 million for reforestation through NGOs and community groups through the MARENA project; - \$1.3 million for work with local communities in the Watershed through the Municipal Development (\$2.5 million authorized); - and \$4.9 million for Training through the CLASP II project.

The \$1.5 million for community reforestation activities would be utilized through ARI. The funds would be directed to protection and reforestation on lands in the Arraijan area (western side of the Canal) which will be turned over to the GOP by the U.S. military in 1996. These lands are under threat from squatters and other unauthorized entry. USAID funding would help establish buffer areas and promote community reforestation to further protect these lands close to the Panama Canal. The MARENA project and the Municipal Development project would provide technical assistance, training and other support.

The \$3.0 million earmarked for INRENARE will complete construction of guard facilities in the Watershed National Parks, train field staff and provide additional short term technical assistance. The \$1.0 million remaining will support INRENARE protection efforts in the Watershed National Parks and in buffer areas surrounding these reserved areas. Community reforestation of the buffer areas will generate income for individuals who would otherwise illegally use park resources. The MARENA project and the Municipal Development project will provide technical assistance, training and other support.

An additional \$2.0 million will provide direct grants to NGOs or community groups for reforestation efforts in the Watershed near

the National Parks. Approximately 40 such grants would be available for projects involving the generation of income at the community level, the protection of critical areas through reforestation and public awareness activities.

Additional funding requirements will necessitate amending the MARENA authorization for \$3.0 million additional or up to \$21 million from its current \$18 million authorized level. Another \$1.2 million would be obligated into the Municipal Development project to bring it to the full authorized level of \$2.5 million.

The remainder of the funds (\$4.972 million) would be devoted to training under the CLASP II project. Approximately five training courses with 50 participants each would address reforestation, soil and water conservation, and natural resource management. \$15.0 million has been authorized for the CLASP II project. Only \$9.795 has been obligated. The addition of \$4,027,682 for this project can be accomplished without revising authorization levels. About \$872,000 remains unearmarked.

(2) Requirements for the SpO - To Facilitate Transfer of the Panama Canal and Productive Use of the Reverted Properties in the Canal Area

By the end of FY 1996 there will be \$1.2 million unearmarked under the Economic Policy Development Project, \$0.5 million under the Trade and Investment Project and \$0.5 million under the Financial Management Reforms Project. For a total of \$2.2 million available funds under the SpO.

Proposed funding levels would add an addition \$4.3 million total for SpO in FY 1996, FY 1997 and FY 1998. The total amount of unearmarked and additional funds for the achievement of SpO for these three years is projected at \$6.5 million.

These fund would be utilized as follows:

ARI:

\$2.2 million for technical assistance and institutional strengthening through the Economic Policy Development Project (TA, networking and training/mentoring activities);

\$0.5 million for technical assistance on privatization through the Trade and Investment Project (TA on public registry, eco-tourism development, intellectual property rights, streamlined procedures for investment development); and

\$0.2 million in TA for harmonization of financial systems and assessment of financial impact of reversion end-use proposals on the macroeconomy under the Financial Administration Reforms (RAF) Project.

Transition Commission/PCA:

\$0.8 million for information programs to ensure democratic involvement in the transition process, under the Economic Policy Development Project;

\$1.0 million in technical assistance for Transition Commission/ACP under the Economic Policy Development Project;

\$0.3 million on TA for harmonization of financial systems under the RAF Project.

New Partnership Initiatives:

\$1.5 million for NPI activities, to include community participation, sensitizing communities through public awareness campaigns; support for co-financing arrangements with PVOs to assist micro-enterprises; development of a planning document, similar to the GAO report on Case Studies on U.S. Base closings to ensure emphasis on the social equity in the reversion process.

Reductions in proposed program budgets below these levels, depending on the magnitude, would jeopardize full achievement of USAID objectives in Panama. A 10-15% reduction in the proposed Program Budget level would result in a significant curtailment of, or may even prompt the elimination of, assistance to the Transition Commission/Panama Canal Authority. A 20-25% reduction will, in addition, severely curtail USAID's ability to respond to requests from ARI for critical assistance related to the reversion process. Reductions beyond 25% would force USAID to eliminate the SpO and concentrate resources solely on protection of existing forests within the Canal Watershed. Reforestation efforts would be severely curtailed or eliminated entirely.

The proposed levels, together with USAID's current pipeline, will permit adequate implementation of planned activities and will permit continued leveraging of IDB resources. An example of such leveraging last year was USAID/IDB coordination with the Fort Amador Tourism Development Plan. A modest investment of USAID funds to develop the terms of reference for the studies resulted in a \$4.0 million IDB financed project, which has now resulted in attracting potential new investment from four international hotel chains.

**B. Program Management Requirements: Operational Expenses
OE & Staffing**

Program Management Requirements - USAID/Panama will have nine active projects through the end of FY 1996, declining to five at the end of FY 1997 and holding at five through the end of FY 1998. The Mission continues to implement an \$18 million pipeline. The Agency has fixed costs in these nine projects whose objectives remain developmentally valid and complementary to those of other donors.

The Mission manages an off-budget Excess Property Program which transfers millions of dollars each year in U.S. military and Panama Canal Commission "excess" property to Government of Panama agencies and Panamanian NGOs. In addition, the Mission administers a \$25 million Housing Investment Guarantee Program that is a Canal Treaty requirement.

With the accounting station transfer to El Salvador, the Mission is continuing an orderly phase down of operations. A further net reduction of five FSN positions will be accomplished by the end of FY 1996. The phase down will continue with further FSN staff reductions tied to project completion. By the end of FY 1996 the Mission will reduce the number of USDH positions to five, by the end of FY 1997 to four and proposes to maintain a level of four USDHs until the Mission closes in September 1999.

USAID/Panama employed three USPSCs a year ago. All were program funded. We have only one USPSC at the moment. To fulfill our commitment to the RIG to improve internal controls over the Excess Property Program, we will continue to employ highly trained FSNs supervised by our Senior Executive Officer. Together, they have the skills to improve systems and decrease vulnerability to manageable levels. The Mission's Excess Property Task Force is preparing for transfers associated with large military base reversions over the next 48 months. All FSN staff who manage this program are funded from Government of Panama trust funds. In late FY 1995 the Mission addressed and closed all three RIG audit recommendations resulting from a Mission-requested audit of this program.

Operating Expenses (OE) and Staffing - Over the last year the Mission has taken decisive steps to reduce OE requirements. We reduced OE budgets for FY 1997 and FY 1998 by eight percent (8%) and eleven percent (11%) respectively.

FSNs represent the largest OE cost, accounting for almost one-half of the annual OE budget. Table 4 shows an orderly decline in FSN staff. By the end of FY 1997, we will have achieved a 25%

reduction in FSNPSCs from the level at the end of FY 1995, with a further reduction by the end of FY 1998 and beyond. However, in FY 1997 and FY 1998 the Mission must fund significant separation payments as senior FSN positions are eliminated.

The OE costs for eleven FSN positions will be eliminated in FY 1996, including five FSN controller positions as a result of the accounting station transfer to El Salvador. Over the last twelve months we have completed maximum movement of eligible personnel to project funding. Mission management continues to scrutinize discretionary expenditures. Resultant savings have been realized in communication and travel costs, warehouse and apartment rents, overtime and office supplies.

As stated in last year's Action Plan, special circumstances contribute to USAID/Panama's OE-to-program funding ratio and to the high cost of doing business in Panama. Panama City is a large, international banking center, comparable to Miami, resulting in high business costs for this singularly dollar-denominated economy in Latin America. All costs are billed and paid in U.S. dollars, and 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. Eight 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 March 1995, USAID/Panama began operations as an independent accounting station and paying office. The transfer from USAID/Costa Rica saved over \$100,000 in annual payroll and communication costs. In the transfer/reorganization process we eliminated four Controller Office positions. One year later, in March 1996, USAID/Panama's accounting station and paying office will move to USAID/El Salvador. As a result, five FSN positions and one USDH Controller's position will be abolished, saving \$120,000 in annual FSN payroll costs and \$60,000 in annual USDH support costs. While recognizing the OE savings and the long term, wide reaching effects of establishing regional support service centers, we believe the accounting station transfer will increase financial vulnerability and decrease operating effectiveness in Panama. The Bureau plans to establish a regional support service center in USAID/El Salvador. However, in the short term, USAID/El Salvador will provide financial management services only. Panama's contracting officer is now based in USAID/Honduras and our regional legal advisor is based in USAID/Guatemala.

Despite these concerns, USAID/Panama has taken the lead to bring about a smooth, successful transfer. A major negative effect of the transfer is that the Mission will not be able to install the new management system (NMS) and will therefore be cutoff from a large part of the Agency's reengineering improvements. Our persistent efforts to find a way to access NMS through maximum usage of existing equipment resulted in IRM selecting Panama as the test site for VSAT communication to USAID/Washington. We are continuing to test the feasibility of a VSAT or modem connection to El Salvador.

OE limitations and pressures to bring staff levels into proportion with steadily decreasing program resources must not jeopardize the opportunity to facilitate the historical transfer of the Panama Canal and U.S. military bases to Panama, given the vital importance of these transfers not only for Panama but also for the United States. USAID's annual program/OE resources (\$4.4 million) seem incongruously low given the importance of the Canal transfer to U.S. foreign policy objectives.

C. FIELD SUPPORT FROM GLOBAL BUREAU

Strategic Objective: To Improve Management and Protection of Canal Watershed

In support of the SO USAID will seek assistance from the Global Bureau in three areas: natural resource accounting, environmental pollution prevention and environmental impact assessment.

Reforestation and environmental protection of the Canal Watershed is key to the Panama's future financial well being. While revenues generated from the use of the Canal and other extractive industries appear in national income accounts, the destruction caused by these industries does not. Likewise, the long term effects of soil erosion and sedimentation on Canal Operations are not considered in accounting practices. Worldwide, some work has been done in determining the loss of natural resources in national accounting. Given Panama's heavy reliance on natural resources for revenues, these practices are relevant here as well. USAID Panama will work with the Global Bureau to identify experts to conduct seminars and training sessions on this topic, in order to make a wider range of Panamanians aware of natural resource accounting and the effect of environmental degradation on the nation's revenues. The Controller General of Panama has indicated his interest in establishing an environmental accounting unit and an environmental auditing unit in his office to oversee all natural parks and the Canal Watershed. We will use resources from our Financial Management Reform Project to

further assist this process. The Mission will devote approximately \$80,000 to this effort in 1997 in the form of consultancies, training and seminars. The Mission believes the most appropriate Global mechanism to obtain these services will be through the Project In Development and Environment (PRIDE) # 298-0365-00. Funds will be obligated by the Mission to provide approximately four months of technical assistance and in country training.

Environmental pollution is an area of increasing concern to municipalities. Historically, municipalities have suffered from a weak tax base and have relied heavily on revenues from the central government. Municipal administration was often deficient and the municipalities served more as an arm of the Central Government rather than as autonomous public entities. Much of this has changed since legislative reform and the first direct election of mayors in 1994. Municipal services outside the major cities of Panama and Colon, however, are often lacking: garbage disposal is left to the individual household and sewage is pumped untreated into the nearest river or stream.

Under the Strategic Objective, the Municipal Development Project targets four municipalities in the Canal Watershed. USAID/Panama will use approximately \$30,000 from the project to conduct pollution prevention and awareness training for municipal officials. The Global Environmental Pollution Prevention Project # 936-5559-00 will also provide two months of technical assistance and in country training.

Mission personnel will also work with Global staff to identify individuals to conduct training in Panama on Environmental Impact Assessments (EIAs). An appropriate Global project has not yet been identified. Limited capacity exists in the public sector and among the larger environmental NGOs to conduct EIAs, but additional training is required. An additional \$30,000 will be allocated for short term training and seminars in conducting and the composition of EIAs. Funds will be obligated by the Mission and this activity is considered high priority.

Special Objective

The Mission will request field support from the Global Bureau to achieve the Special Objective. **Three areas of increased support from Global are envisaged.**

In the first instance, we are actively engaged in supporting the work of ARI in its role of carrying out the planning and marketing for private sector productive use of the U.S. military

bases and Canal operating areas which are already being transferred to Panamanian control. This is a major undertaking, requiring efforts going beyond what has ever been undertaken by the GOP. ARI requires technical support in planning, marketing, budgeting, accounting, networking and mentoring which they and we believe can be provided by the International Executive Service Corps (IESC). At ARI's request, we have, therefore, agreed to consider a multi-year grant to IESC to provide highly experienced U.S. technical experts on a short-term basis to address a wide range of specific base reversion issues, identified by ARI, with longer-term relevant mentoring and "networking" assistance to ARI to develop their own self-sustaining systems to meet the challenges of reversion. Beyond ARI's specific needs, IESC may also be called upon by the GOP's Transition Commission for Canal operations to develop operating systems for the new Panama Canal Authority.

In neither instance would these grant-funded activities with IESC require direct Global Bureau interventions. The Mission will request the Regional Contracting Officer to put in place the grant arrangements. Nonetheless, given the anticipated magnitude of the grant (in the order of \$6 Million), we believe that it is important for the Mission to keep the Global Bureau in the loop on these arrangements, particularly since we believe that IESC will form an integral part of our New Partnership Initiative.

For these reasons, the second Global Bureau outreach for the Special Objective concerns a planning exercise we seek to develop through a multi-year buy-in to the Private Enterprise Development Support (PEDS) Project, estimated to be in the amount of \$400 Thousand per year through 1999, is to develop a planning document for the GOP, to provide benchmarks, methodology and modeling to enable proper tracking of the entire reversion process.

The small-to-medium business community in Panama will require special attention with its own set of challenges relating to the reversion process. We believe that Panama can make good use of the Free Market Development Advisor Program (FMDAP), managed by the Global Bureau.

In keeping with the New Partnership Initiative of using and strengthening local NGOs to meet the challenges of development, we intend to call upon a number of FMDAP advisors to assist Panamanian businesses, through local NGOs, in addressing issues relating to financial, marketing and other management planning.

D. LABS AND AC/SI UPDATE

LABS AND AC/SI UPDATES

(Pages 67-91)

(This information is available from LAC/SPM as a separate attachment.)

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B U D G E T

FY 1998 STRATEGIC OBJECTIVE LEVEL

STRATEGIC OBJECTIVE	FY 1997 Pipeline	FY 1998			
		Obligations	Expenditures	Pipeline	Mortgage
To Improve Management and Protection of the Panama Canal Watershed	6,332 **	2,500	7,500	1,332	0

** Based on FY 97 pipeline estimates of five project activities:

- Special Development Activities Project No. 525-0101
- Natural Resources Management Project (MARENA) No. 525-0308
- Economic Policy Project No. 525-0313
- Municipal Development Project No. 525-0324
- CLASP-II Project No. 525-1001

SPECIAL ISSUES

1. Gender Impact

The USAID/Panama portfolio of programs and projects benefits women and encourages female participation throughout the range of development activities. For example,

-- Approximately 43% of CAPS and CLASP Project Thomas Jefferson Fellows are women.

-- Women represent 55% of total trainees under the Improved Administration of Justice Project (AOJ), which range from continuing legal education, specialized training for judges, prosecutors and public defenders, as well as general training.

-- 50% of the participants trained under the Economic Training Component of the Economic Policy Development Project (EPD), are women. Four, upper level, undergraduate modules in economics were provided by Iowa State University. Achievements of women participants in this training program were exceptional. Most honor roll students were women.

-- The Financial Administration Reform Project (RAF) conducted a series of seminars on budget, accounting, treasury, public debt, audit and ethics. On average, women accounted for 51% of participants.

-- The Natural Resources Management Project (MARENA) conducted hands-on training to assist the Institute of Renewable Natural Resources (INRENARE) implement needed decentralization of procurement actions. Almost 45% of the forestry/agricultural engineers who participated in the workshop were women.

-- USAID/Panama provided encouragement and assistance to women-focused and/or women-led local NGOs, particularly in institutional development. Over time there will be positive impact on overall women development issues. For example:

-- The results of a USAID sponsored workshop/seminar to assess the degree of women's participation in national politics helped women politicians recognize their strengths and weaknesses in the political process, and to understand why female participation in voting does not necessarily result in women being elected and/or appointed to high public office.

-- Grassroots level community legal education is being provided nationwide to educate women on their basic legal rights and assist them in dealing with judicial and government authorities.

Participation by women, as stakeholders, will contribute positively toward achievement of results under the Municipal Development Project. An important focus is increasing female participation in the municipal decision-making process. The following activities are under consideration:

-- The Association of Municipalities of Panama (AMUPA) will consult women's (established or ad hoc) advisory commissions and women officials in the municipal bureaucracy to gain a gender perspective on the deliberation and design of legislative proposals.

-- Female participation will be encouraged in the training of elected officials and staff at the municipal level in the various skill areas needed for efficient municipal and local government management.

Gender disaggregated information from activities impacting on the Mission's efforts to facilitate the Canal Reversion process, is being developed. Present efforts involve institutional development of ARI to achieve reversion goals and establishment of programs to increase female employment and income as well as access to housing by female-headed households.

2. New Partnership Initiatives

Over the past five years, USAID/Panama has strengthened civilian government through the Mission's Democracy and Governance Strategic Objective. With declining resources, the Mission will continue to consolidate and extend those gains, providing assistance and training to selected Panamanian institutions and non-governmental organizations (NGOs) which are vital to establishing longer term civil stability. As outlined below, USAID/Panama already has a long-standing track record in dealing with NGOs on issues concerning local governance, small business development and NGO empowerment. What we believe that can be put in place is a holistic rationale for developing a New Partnership Initiative.

Critical to the competent management and transfer of responsibility for Panama Canal operations is a strong civil society. Panamanians continue to build a democratic society and the last few years have seen major reforms to the judicial system, increased access to the political process, the beginning

of privatization (either direct privatization or the de facto privatization effects of the Canal reversion process), increased free trade, a review of agrarian reform policies and the facilitation of individual and communal land titles.

Despite the increase in number and activity of NGOs working in these very areas, most are organizationally weak and some exist only on paper. The current environment in Panama for work with NGOs and private voluntary organizations (PVOs) is optimal. Civil society is truly beginning to take hold. Panama recently held successful national level elections and there is overwhelming support for civilian government. NGOs are beginning to play a very important role in all aspects of society and development, including health, education, environmental issues and economic growth. The GOP has established linkages with the NGO sector, including them in national policy level discussions. USAID should play a role by assisting NGOs in strengthening their institutional and management capabilities, and by encouraging improved access of marginalized people and their organizations to a range of development services that respond to their particular social, economic and community needs. We will coordinate our efforts with those of the Inter-American Foundation (IAF). The IAF has strong contacts with Panama's NGO's involved in sustainable agriculture, environmental protection, micro- and small enterprise.

ARI is beginning to work closely with the NGO sector to ensure equitable distribution of the results of the reversion process. USAID through the IESC will provide technical assistance and training to ARI to assist in improving relations with its counterparts in the NGO sector.

In other outreach efforts in NGO development, USAID will expand local participation and empowerment to communities and NGOs through the Municipal Development Project. Under that project, USAID will work with local leaders and with the newly established national association of municipalities to help resolve management problems related to "normal" civil society issues as well as issues springing from the reversion process.

The Strategic Objective for Canal watershed protection activities involves activities in reforestation, agroforestry, environmental education, training and technical assistance, and resources to initiate sustainable development projects. Several NGOs are active in USAID's task force meetings, provide insights to issues and questions that arise, participate in the decision-making process, and make recommendations to USAID on ways to improve MARENA project implementation.

USAID, together with The Nature Conservancy, will continue to provide technical assistance to Fundacion NATURA which administers the Environmental Trust Fund established in February 1995.

ANNEX TABLES

1 - 6

Annex 1

**ALL RESOURCES TABLE
USAID/PANAMA
(\$000)**

Funding Category	FY 1996*	FY 1997		FY 1998	
		Base**	Base - 20%	Base - 10%	Base -30%
Development Assistance/ SEED/FSA/ESF/IDA ***					
Economic Growth					
Of which: Field Support ****					
Population/Health					
Of which: Field Support ****					
Environment	2,221	1,800	1,800	3,500	2,500
Of which: Field Support ****					
Democracy	1,294	4,154	1,000	0	0
Of which: Field Support ****					
Humanitarian Assistance/Transition					
Of which: Field Support ****					
PL480:					
Title II					
Title III					
Other (HG, MSED, ECA) ***					
GRAND TOTAL	3,515	5,954	2,800	3,500	2,500

* The FY 1996 level is from operating bureau allocations based on 75 per cent of the FY 1996 CP request level, except for PL480 programs for which appropriations have been enacted.

** Base is defined as operating bureau allocations based on the FY 1997 OMB request level. These allocations shall be ACSI code driven.

*** FYI: SEED= Support for Eastern European Democracy FSA= Freedom Support Act (NIS countries); IDA= International Disaster Assistance.

HG = Housing Guaranty; MSED= Micro and Small Enterprise Development, ECA=Enhanced Credit Authority

**** Refers to all Field Support -- both Global-obligated and Mission-obligated.

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**Annex 2
Funding Scenarios by Objective***

(000)

OBJECTIVE	FY 1996**	FY 1997		FY 1998	
		Base***	Base - 20%	Base -10%	Base - 30%
Strategic Objective # 1: TO IMPROVE MANAGEMENT AND PROTECTION OF PROTECTION OF CANAL WATERSHED Development Assistance/SEED/FSA**** Economic Support Funds PL480: Title II Title III International Disaster Assistance Other (HG, MSED, ECA)****	2,221	2,221	1,800	3,500	2,500
Strategic Objective # 2: TO STRENGTHEN CIVILIAN GOVERNMENT INSTITUTION AND ENCOURAGE GREATER CITIZEN PARTICIPATION	1,294	0	0	0	0
Special Objective : TO FACILITATE SMOOTH TRANSFER OF THE PANAMA CANAL AND PRODUCTIVE USE OF THE THE REVERTED AREAS. Development Assistance/SEED/FSA**** Economic Support Funds PL480: Title II Title III International Disaster Assistance Other (HG, MSED, ECA)****		1,294	1,000	0	0
Strategic Support Objective # ____: (text) Development Assistance/SEED/FSA**** Economic Support Funds PL480: Title II Title III International Disaster Assistance Other (HG, MSED, ECA)****					
Total Development Assistance/SEED/FSA**** Economic Support Funds PL480: Title II Title III International Disaster Assistance Other (HG, MSED, ECA)****	3,515	3,515	2,800	3,500	2,500

* Use all funding epigets, including DA, SEED, FSA, ESF, PL480, IDA, HG, MSED, and ECA.

** The FY 1996 level is from operating bureau allocations based on 75 per cent of the FY 1996 CP request level, except for PL480 programs for which appropriations have been enacted.

*** Base is defined as operating bureau allocations based on the FY 1997 OMB request level.

**** Please disaggregate by funding category.

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**Annex 3
GLOBAL FIELD SUPPORT**

Mission: Strategic Objective	Field Support: Activity Number & Title	Priority *	Duration	Estimated Funding (\$000)							
				FY 1996**		FY 1997***				FY 1998***	
				Obligated by ****:		FY 1997 Base Obligated by ****:		FY 1997 Base - 20% Obligated by ****:		FY 1997 Base - 30% Obligated by ****:	
				Global Bureau	Operating Unit	Global Bureau	Operating Unit	Global Bureau	Operating Unit	Global Bureau	Operating Unit
S.O.	298-0365 Project in Development and Environment	High	1 year			-	-		80		-
S.O.	936-5559 Environmental Pollution Prevention	High	1 year	-	-	-	-	-	30	-	-
S.P.	940-0026-00 Private Enterprise Development Support	High	3 years	-	400	-	-	-	400	-	400
S.P.	940-0022-00 Free Market Development Advisor Program	High	3 years	-	60	-	-	-	60	-	60
	Note: Following are shown for notational purposes only; Mission anticipates making a direct grant to these institutions.										
S.O.	International Center for Self-Governance	High	3 years		700				600		
S.P.	International Executive Service Corps.	High	3 years	-	1000	-	-	-	1000	-	1000
GRAND TOTAL.....				-----	460	-----	0	-----	570	-----	460

* For Priorities use high, medium-high, medium, medium-low, low

** The FY 1996 level is from operating bureau allocations based on 76 per cent of the FY 1996 CP request level, except for PL480 programs for which appropriations have been enacted.

*** Base is defined as operating bureau allocations from the FY 1997 OMB request level.

**** If the funding source is unknown, show all the funding as Obligated by Global Bureau.

ANNEX TABLE 4

USAID/Panama

**OE Funding Requirements
(\$000)**

OE FUNDED LEVELS			
By Major Function Code:	FY 96	FY 97	FY 98
U100 U.S. Direct Hire	72,600	62,930	46,000
U200 F.N. Direct Hire	0	0	0
U300 Contract Personnel	765,700	596,273	496,500
U400 Housing	218,600	183,600	150,700
U500 Office Operations	567,500	598,150	587,027
U600 NXP Procurement	0	55,000	53,000
Total Mission Funded OE Costs	1,624,400	1,495,953	1,333,227

6.6

ANNEX TABLE 5

USAID/Panama

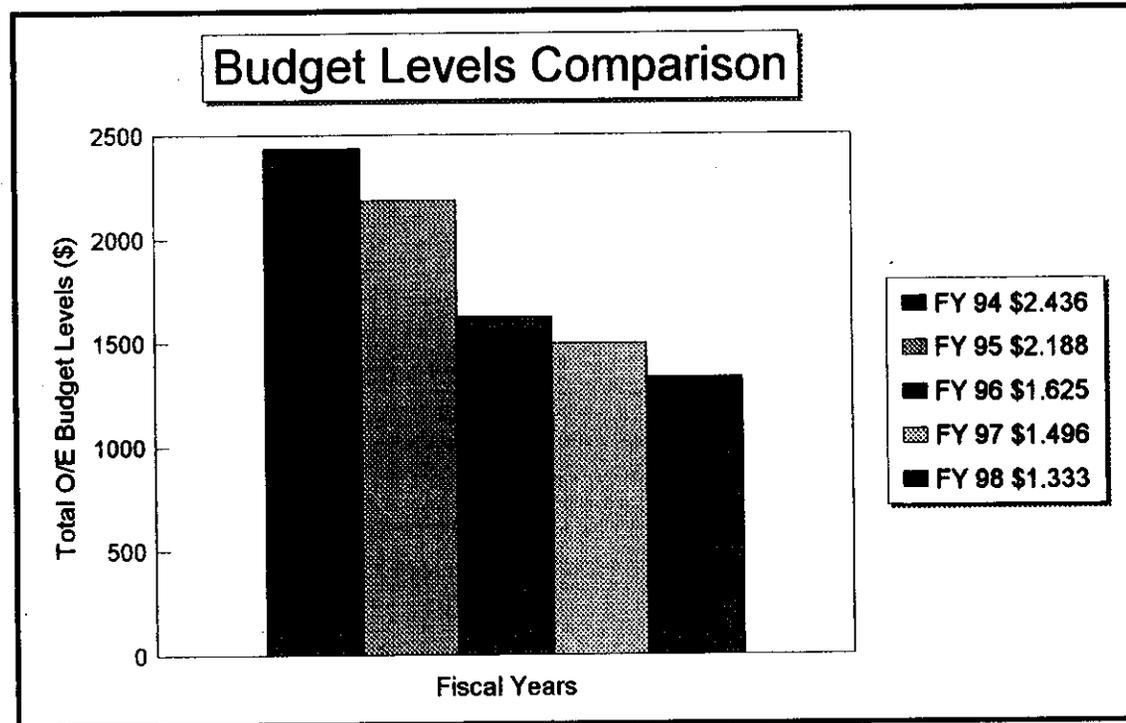
Mission Staffing Requirement

	FY 96						FY 97						FY 98					
	USDH	USPS C	TCNPS C	FSN	Other	Total	USDH	USPS C	TCNPS C	FSN	Other	Total	USDH	USPS C	TCNPS C	FSN	Other	Total
Total Authorized Positions	5	1	0	36	0	42	4	1	0	31	0	36	4	1	0	25	0	30
of which																		
Program Funded	0	1	0	13	0	14	0	1	0	10	0	11	0	1	0	8	0	9
Trust Funded	0	0	0	4		4	0	0	0	4	0	4	0	0	0	4	0	4
OE Funded	5	0	0	19	0	24	4	0	0	17	0	21	4	0	0	13	0	17

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ANNEX TABLE 6

USAID/Panama



ANNEX A AND ANNEX B ARE AVAILABLE FROM LAC/SPM
AS A SEPARATE ATTACHMENT

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ACTION OFFICE(S): I LASP
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LRSD MB MBBS MPI OFDA OPB OPCC OPE OPOD
OPPS POP PPDC PPSP STAG

INFO LOG-00 AGRE-00 ARA-01 TEDE-00 /001R

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APPROVED BY: AID/AA/LAC:MSCHNEIDER
AID/DAA/LAC:EZALLMAN AID/LAC/SPM:ERUPPRECHT (DRAF
AID/PFC:VCUSUMANO (DRAFT) AID/LAC/DPB:DCHIRIBOGA (DRAF
STATE/ARA/CEN:HSINON (DRAFT) AID/LAC/CEN:KELLIS (DRAFT)
STATE/ARA/CEN:GWRIGHT (DRAFT) AID/LAC/CEN:BBUNDY (DRAFT)
AID/LAC/RSD:SEFSTEIN (DRAFT)
AID/LAC/RSD/ENV:JMCMAHON (DRAFT)
AID/LAC/DPB:MOTT (DRAFT)
AID/G/PDSP:TMAHONEY (DRAFT)
AID/M/B:BGREENE (DRAFT)
AID/GC/LAC:SALLEN (DRAFT)
AID/LAC/RSD/PHN:EOGDEN (DRAFT)
AID/DAA/LAC:NPARKER (INFO)
AID/DAA/LAC:RDAUBON (INFO)
AID/LAC/DPB:TOKARE (INFO)
AID/LAC/RSD/BBEG:JBECKER (INFO)
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E.O. 12356: N/A
TAGS:
SUBJECT: FY 96-97 ACTION PLAN FOR PANAMA

SUMMARY: THE PROGRAM WEEK REVIEW FOR PANAMA TOOK PLACE APRIL 10 THROUGH 14, 1995. A SERIES OF FORMAL SCHEDULED MEETINGS CONSIDERED DEVELOPMENT OBJECTIVES, INDICATORS OF PROGRESS TOWARD MEETING THOSE OBJECTIVES, PROPOSED AMENDMENT OF AN ACTIVITY, RESOURCE REQUIREMENTS, PROGRAM ISSUES, AS WELL AS LONGER TERM STRATEGY. SPECIAL ISSUES WERE EXAMINED IN OTHER MEETINGS AMONG MISSION REPRESENTATIVES AND STAFF OF VARIOUS AID/W OFFICES. THE DEVELOPMENT ASSISTANCE EXECUTIVE COMMITTEE (DAEC) REVIEW OF THE FY 96-97 ACTION PLAN (AP) FOR PANAMA WAS HELD ON APRIL 14, 1995. THIS CABLE OUTLINES THE MAJOR ELEMENTS OF DISCUSSION AT THAT SESSION, DESCRIBES ADDITIONAL ACTIONS REQUESTED, AND RECORDS AGREEMENTS REACHED. IN BRIEF, THE ACTION PLAN WAS APPROVED, ALONG WITH THE NEW ACTIVITY DESCRIPTION OF THE PROPOSED ECONOMIC POLICY DEVELOPMENT PROJECT AMENDMENT. END SUMMARY.

1. THE DAEC REVIEW OF THE PANAMA ACTION PLAN FOR FY 1996-97 WAS CHAIRED BY AA/LAC MARK SCHNEIDER. AMONG THOSE ATTENDING WERE STATE/CEN HUGH SIMON AND GEORGIA WRIGHT, AND REPRESENTATIVES OF M/B, G/PDSP, G/DG/, LAC/RSD

TECHNICAL OFFICES, LAC/CEN, LAC/DPB, AND LAC/SPM. MISSION REPRESENTATIVES WERE USAID MISSION DIRECTOR DAVID MUTCHLER, AND FORMER PROGRAM OFFICER JOHN CLARY.

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2. IN HIS INTRODUCTORY REMARKS, THE MISSION DIRECTOR NOTED THAT USAID'S WORK OVER THE LAST FIVE YEARS IN PANAMA IS ONE OF THE GREAT USAID SUCCESS STORIES. IN 1990, THE GOVERNMENT WAS IN SHAMBLES. SINCE THEN, THE \$500 MILLION USAID PROGRAM RAPIDLY ASSISTED THE GOVERNMENT OF PANAMA (GOP) TO REBUILD, DEVELOP FINANCIAL MANAGEMENT AND JUDICIAL SYSTEMS, ACHIEVE ECONOMIC GROWTH OF FIVE TO TEN PERCENT PER ANNUM, AND CARRY OUT FREE AND FAIR ELECTIONS. THIS FIRST PHASE IS NEARLY COMPLETED. THE FOCUS OVER THE NEXT FIVE YEARS WILL BE ON THE TRANSFER OF THE PANAMA CANAL IN 1999. THIS INVOLVES TWO MAJOR EFFORTS:

1) REVERSION OF THE MILITARY PROPERTIES (VALUED AT \$1 BILLION TO \$30 BILLION) AND MAKE PRODUCTIVE USE OF THESE RESOURCES; AND 2) PROTECTION OF THE ECOLOGY OF THE CANAL WATERSHED, TO PROVIDE THE FRESH WATER RESOURCES REQUIRED FOR CANAL OPERATIONS. THE EXCESS PROPERTY PROGRAM WAS CITED AS A SIGNIFICANT FEATURE OF THE MISSION'S PROGRAM WHICH DOES NOT SHOW UP IN ANY OF ITS PAST ACTION PLANS AS A PROGRAM ITEM, BUT WHICH REPRESENTS A SUBSTANTIAL ELEMENT OF THE PROGRAM AND CALL ON OE RESOURCES. THE DIRECTOR ALSO POINTED OUT THE IMPORTANCE OF TAKING ADVANTAGE OF THE EXPERTISE AND KNOWLEDGE OF USAID STAFF-- PARTICULARLY THE MANY YEARS OF EXPERIENCE OF THE FOREIGN SERVICE NATIONALS (FSNS), THE NEED TO LEVERAGE OTHER DONOR PROGRAMS WITH MUCH LARGER RESOURCES, AND FOCUS THE USAID PROGRAMS ON THOSE AREAS WITHIN USAID'S MANAGEABLE INTEREST. THEREFORE, THE USAID FOCUS WILL BE ON SUPPORTING THE GOP IN MAKING THE MOST PRODUCTIVE USE OF THESE REVERTED PROPERTIES. HE CALLED ON OTHERS WITHIN USAID, I.E., THE LAC REGIONAL PROGRAM AND THE GLOBAL BUREAU, AND OTHER DONORS TO BECOME INVOLVED IN PROTECTING THE TROPICAL

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FOREST RESOURCES OF THE DARIEN AND DEALING WITH THE LARGE NUMBER OF NEW OPEN PIT MINES TO BE DEVELOPED IN THE CENTRAL SIERRA.

3. STATE/ARA/CEN REPRESENTATIVES ENDORSED THE PAN ACTION PLAN AND NOTED THAT STATE WOULD LIKE TO SEE USAID WORK ON SUPPORTING THE PRIVATIZATION OF THE REVERTED PROPERTIES, AND ON CONSERVATION OF THE ECOLOGY OF THE CANAL WATERSHED IN LINE WITH THE ON-GOING REVIEW OF USC POLICY WITH PANAMA.

4. THE AA/LAC PRAISED THE ACTION PLAN FOR ITS PARTICULARLY GOOD DEFINITION OF INDICATORS, TANGIBLE DATA ON PERFORMANCE, AND THE EXCELLENT ANALYSIS OF PROGRAMS AND THEIR RELATIONSHIP TO THE SUMMIT OF THE AMERICAS. IN THE

DISCUSSION OF THE MISSION PROGRAM, THE AA/LAC ASKED THE DIRECTOR ABOUT THE PROFILE OF THE MISSION'S PROGRAM SINCE OPERATION JUST CAUSE, THE NUMBER OF THE 300 PANAMANIAN NON-GOVERNMENT ORGANIZATIONS (NGOS) THE MISSION EXPECTS TO ASSIST, AND THE PROCEEDINGS OF THE USAID-FUNDED MAYORS FOCUS GROUPS AND THEIR CONCERNS AND ISSUES REGARDING THE RULE OF LAW, CORRUPTION, AND DECENTRALIZATION. HE ALSO SUGGESTED THE POSSIBILITY OF MATCHES BETWEEN U.S. AND PANAMANIAN CITIES. THE MISSION DIRECTOR NOTED THAT THE MUNICIPAL DEVELOPMENT PROJECT WILL INCLUDE THESE TYPES OF MATCHES, AND THAT THE NUMBER OF NGOS ASSISTED WILL DEPEND ON FUTURE FUNDING, ESPECIALLY FUNDING FOR THE PLANNED PVO UMBRELLA PROJECT. THE MISSION DIRECTOR ALSO DISCUSSED HOW THE COMPLETION OF DEMOCRACY ACTIVITIES IN JUDICIAL SYSTEM DEVELOPMENT, FINANCIAL SYSTEM IMPROVEMENT, AND ELECTIONS

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SUPPORT THE DEMOCRATIC GOVERNMENT ARE NECESSARY TO REINFORCE PROTECTION OF THE ENVIRONMENT AND TO IMPLEMENT THE CORRECT TRANSFER OF THE REVERTED AREAS TO THE PANAMANIAN PUBLIC AND PRIVATE SECTORS.

5. REVERTED AREAS AND POVERTY FOCUS. DISCUSSION OF THE TRANSFER AND USE OF THE REVERTED AREAS FOCUSED ON POVERTY, AND HOW THE USE OF THE PROCEEDS FROM PRIVATIZATION OF THESE AREAS CAN BE GEARED TO HAVE A POSITIVE IMPACT ON ECONOMIC GROWTH AND MORE EQUITABLE INCOME DISTRIBUTION WITH REDUCTION OF POVERTY. THIRTY PERCENT OF THE

PANAMANIAN POPULACE IS JUDGED TO BE IN DIRE POVERTY. PRIVATIZATION OF THE REVERTED AREAS IS VIEWED AS A MEANS TO BENEFIT THE POOR, THROUGH FOSTERING MICRO-ENTERPRISE AND INCREASING SOCIAL INVESTMENT. LAC ECONOMISTS POINTED OUT THAT GIVEN THE HIGH VALUE OF THE REVERTED AREAS (ESTIMATED AT FIFTEEN TO THIRTY BILLION DOLLARS) AND THE CURRENT LOW PRODUCTIVE USES TO WHICH THESE AREAS ARE BEING PUT, THAT EVEN A SLIGHTLY MORE PRODUCTIVE USE OF THESE AREAS COULD PRODUCE AN ECONOMIC TAKE OFF FOR PANAMA. THUS, POLICY DIALOGUE TO FOSTER JOB CREATION, ESTABLISH A BETTER LABOR CODE, IMPROVE INCOME DISTRIBUTION, AND LOWER FOOD PRICES (BY DECREASING TARIFFS ON FOOD IMPORTS) IS KEY TO SUSTAINABLE DEVELOPMENT FOR PANAMA. POLICY DIALOGUE IS ESSENTIAL FOR THE MODEST USAID INVESTMENT TO PAY DIVIDENDS IN POVERTY REDUCTION. IT IS IMPORTANT TO CONTINUE TO KEEP THE FOCUS ON POVERTY ALLEVIATION AS WE PURSUE FINDING THE BEST AND HIGHEST ECONOMIC USE OF THE REVERTED PROPERTIES, THUS MAXIMIZING PROCEEDS, AND HENCE, BENEFIT FOR THE POOR. THE STATE REPRESENTATIVES NOTED THAT THE GOP IS COMMITTED TO PROVIDING PUBLIC HOUSING, AND USAID RESPONDED THAT THIS

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AREA OF CONCERN IS INCLUDED IN THE POLICY DISCUSSIONS. THROUGH PRIVATIZATION, THESE PROPERTIES ARE EXPECTED TO PROVIDE THE POOR WITH INCOME AND MUCH NEEDED HOUSING. IT SHOULD BE NOTED THAT THE LAW GOVERNING THE INTEROCEANIC

REGIONAL AUTHORITY (ARI), THE PANAMANIAN ORGANIZATION RESPONSIBLE FOR THE REVERTED AREAS, PROVIDES FOR USE OF A PORTION OF THE PROCEEDS FROM PRIVATIZATION OF THE REVERTED AREAS FOR LOW COST HOUSING AND OTHER SOCIAL INVESTMENTS. WITH REGARD TO EMPLOYMENT CREATION, USAID/PANAMA PROVIDED A PRIVATE COMMERCIAL BANK WITH TECHNICAL ASSISTANCE THROUGH THE NGO, ADEMI, TO ESTABLISH A HIGHLY SUCCESSFUL LENDING PROGRAM TO ASSIST SMALL AND MICRO-ENTERPRISES IN PANAMA CITY, SAN MIGUELITO, DAVID, AND CHORRERA. DURING A THREE-YEAR PERIOD, DOLS 9.5 MILLION IN LOANS GENERATING 1,203 NEW JOBS HAVE BEEN REALIZED. LIKEWISE, SOME 3000 NE JOBS ARE EXPECTED TO BE CREATED THROUGH PRIVATIZATION OF THE REVERTED AREAS.

6. ENVIRONMENT PROGRAM FOCUS. WHILE DISCUSSION I DAEC WAS DIRECTED PRIMARILY TOWARD THE REVERTED AREAS, THE ENVIRONMENT PROGRAM WAS DEALT WITH BRIEFLY AFTER EXTENSIVE DISCUSSION OF ENVIRONMENT CONCERNS PRIOR TO THE DAEC. IN SHORT, THE MISSION ENVIRONMENT PROGRAM IS DIRECTED THROUGH THE NATURAL RESOURCES MANAGEMENT (MARENA) PROJECT TO PROTECTION OF THE CANAL WATERSHED ECOLOGY, WHICH IS ESSENTIAL TO PROVIDE THE FRESH WATER RESOURCES REQUIRED FOR CANAL OPERATIONS. THE MARENA PROJECT ALSO INCLUDES AN ENVIRONMENTAL TRUST FUND FOR NON-GOVERNMENT ORGANIZATION (NGO) AND GOVERNMENT OF PANAMA (GOP) ENVIRONMENTAL ACTIVITIES. OTHER ACTIVITIES WHICH PROTECT THE CANAL

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WATERSHED ARE REGIONAL USAID PROGRAMS SUCH AS THE TROPICAL AGRICULTURE AND TEACHING CENTER (CATIE) AND THE CENTRAL AMERICAN REGIONAL ENVIRONMENTAL PROJECT (PROARCA). THE TASK OF ASSISTING WITH PROTECTION OF THE ENVIRONMENT OUTSIDE THE CANAL WATERSHED IS BEYOND USAIDIS MANAGEABLE INTEREST. HOWEVER, THE MISSION FEELS STRONGLY THAT THE AREA OUTSIDE THE CANAL WATERSHED SHOULD BE SUPPORTED BY USAID LAC REGIONAL AND GLOBAL BUREAU PROGRAMS, AND THAT OTHER DONOR SUPPORT ACTIVELY SHOULD BE SOUGHT. SPECIFICALLY, THE MISSION DIRECTOR STRONGLY URGED SUCH SUPPORT FOR DATA COLLECTION, E.G., REMOTE SENSING, TO RECORD THE DRAMATIC DECLINES FOREST RESOURCES AND BIO-DIVERSITY OCCURRING IN PANAMA. ALSO, IN A SIDE MEETING, A DECISION WAS REACHED NOT TO PROCEED WITH A MISSION PROPOSAL TO MITIGATE POPULATION PRESSURES BY PROVIDING A GRANT TO A PANAMANIAN NGO TO EXTEND FAMILY PLANNING SERVICES INTO THE CANAL WATERSHED AREA. ALSO, THE MISSION WILL PURSUE A PARTICIPATING AGENCY SERVICE AGREEMENT (PASA) ARRANGEMENT WITH THE SMITHSONIAN TO ASSIST IN DEVELOPING OPTIONS FOR THE CANAL WATERSHED.

7. NEW ACTIVITY DESCRIPTION. THE NAD TO AMEND THE CANAL

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COMPONENT OF THE ECONOMIC POLICY PROJECT, ADDING ONE MILLION DOLLARS AND EXTENDING THE LIFE OF PROJECT FOR

THREE YEARS, WILL ASSIST THE GOP WITH PLANNING FOR THE CANAL TRANSFER AND TRANSFER OF THE REVERTED AREAS, I.E., THE MILITARY BASES AND CANAL PROPERTIES. IF USAID FUNDING FOR PANAMA BECOMES CONSTRAINED, THIS ACTIVITY TAKES PRIORITY AND THE PHASE-OUT OF ACTIVITIES IN THE DEMOCRACY SECTOR WOULD BE ACCELERATED. THE NAD WAS APPROVED.

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PROJECT NUMBER	PROJECT NAME	LOP AMOUNT (DOLS 000)	RECOMMENDED ACTION
525-0313	ECONOMIC POLICY DEVELOPMENT (CANAL COMPONENT)	1,000	APPROVE/ DELEGATE

8. EXCESS PROPERTY PROGRAM. THE MISSION DIRECTOR OUTLINED THE EXCESS PROPERTY PROGRAM AND CHARACTERIZED IT AS A MAJOR OFF-BUDGET INITIATIVE WHICH UTILIZES ABOUT FORTY PERCENT OF ONE U.S. DIRECT HIRE AND TWO FULL TIME FOREIGN SERVICE NATIONAL STAFF. IN IMPLEMENTING THIS PROGRAM USAID IS ABLE TO PROVIDE IMMEDIATE AND MATERIAL SUPPORT TO PANAMANIAN NON-GOVERNMENT ORGANIZATIONS (NGOS), AND TO THE GOP. SINCE APRIL 1991, THE PROGRAM HAS DISTRIBUTED SOME \$27.1 MILLION IN COMMODITIES. AS WE MOVE CLOSER TO THE DECEMBER 31, 1999, TRANSFER COMPLETION DATE, THE MISSION ANTICIPATES SUBSTANTIAL INCREASES IN THIS AMOUNT. THREE ISSUES/CONCERNS WERE DISCUSSED:

(A) WITH THE CURRENT EXECUTIVE OFFICER'S DEPARTURE EARLY JUNE AND A PROJECTED SUBSTANTIAL EXPANSION OF PROGRAM AS THE PROPERTY REVERSIONS PROCEED, APPROPRIATE STAFF IS REQUIRED AND WAS APPROVED (PARA. 9 BELOW).

(B) THE INTER-AGENCY WORKING GROUP ON PANAMA IS DRAFTING A PRESIDENTIAL REVIEW DIRECTIVE (PRD). THE PRD IS EXPECTED TO RECOMMEND USAID'S CONTINUED MANAGEMENT AND

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ADMINISTRATION OF THE U.S. EXCESS PROPERTY PROGRAM IN PANAMA. DURING THE ACTION PLAN REVIEW, USAID/W CONCURRED IN THE MISSION'S CONTINUED IMPLEMENTATION OF THE PROGRAM.

(C) TO ENSURE THAT THE PROGRAM WAS IN COMPLIANCE, THIS YEAR, THE MISSION REQUESTED A REGIONAL INSPECTOR GENERAL (RIG) AUDIT OF THE PROGRAM. THE RIG HAS JUST COMPLETED ITS REVIEW. IN PRELIMINARY DISCUSSIONS WITH THE RIG IN USAID/W, THE AUDITORS IDENTIFIED THREE AREAS WHICH NEED TO BE ADDRESSED: (1) INCONSISTENCIES BETWEEN THE TERMS OF THE MEMORANDUM OF UNDERSTANDING AND ACTUAL IMPLEMENTATION (FOR MANAGEMENT AND ADMINISTRATION); (2) THE NEED TO USE PROGRAM TRUST FUNDS RATHER THAN OPERATING EXPENSE FUNDS TO FINANCE THE OPERATIONS OF THE PROGRAM;

AND (3) THE NEED TO DEFINE THE TERM QUOTE HUMANITARIAN ASSISTANCE UNQUOTE. THE FINAL RESULTS OF THE AUDIT WILL BE AVAILABLE LATER THIS YEAR.

9. STAFFING LEVELS. THE AA/LAC SUPPORTED THE PANAMA MISSION REQUEST FOR APPROPRIATE STAFF INCLUDING: (A) ASSIGNMENT OF A USDH EXECUTIVE OFFICER IN EARLY JUNE TO ENSURE OVERSIGHT OF THE EXCESS PROPERTY PROGRAM; (B) ESTABLISHMENT OF A PERSONAL SERVICES CONTRACT (PSC) FOR AN EXCESS PROPERTY MANAGEMENT POSITION; AND (C) ARRANGEMENT FOR A PASA TROPICAL FORESTER THROUGH THE GLOBAL BUREAU AND SMITHSONIAN INSTITUTION, AND ASSIGNMENT OF A PEACE CORPS VOLUNTEER TO SUPERVISE CONSTRUCTION OF NATIONAL PARK GUARD FACILITIES.

10. DONOR COORDINATION. USAID STAFF ALSO WILL USE THEIR

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EXPERTISE AND KNOWLEDGE TO INFORM AND INFLUENCE OTHER
DONORS, PARTICULARLY THE INTER-AMERICAN DEVELOPMENT BANK
(IDB), IN THEIR EFFORTS TO SUPPORT THE REVERSION OF
PROPERTIES, AND TO PROTECT THE ENVIRONMENT INCLUDING THE
CANAL WATERSHED.

11. USAID PROGRAM CLOSE DATE: THE AA/LAC INDICATED THAT A
DISCUSSION OF A CLOSE OUT DATE FOR THE PANAMA PROGRAM WAS
PREMATURE. SUCH A DISCUSSION SHOULD WAIT UNTIL WE ARE
CLOSE TO THE CANAL REVERSION DATE.
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