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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

Proposal and Recommendations
For the Review of the
Development Loan Committee

PANAMA - RURAL MUNICIPAL DEVELOPMENT

AID/DLC/P-2122

Project # 525-0176

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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AID-DLC/P-2122
October 1, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

Subject: Republic of Panama - Rural Municipal Development

Attached for your review are the recommendations for the authorization for a loan to the Republic of Panama ("Borrower") of not to exceed Four Million United States dollars (\$4,000,000) to assist the Municipal Development Division of the National Bank of Panama (the Fund) to finance training, technical assistance and sub-loans from the Fund to the rural municipios for food, rural development and nutrition projects (the Project).

No meeting will be scheduled for this proposal. However, please advise us of your concurrence or objection as early as possible, but in no event later than close of business on October 8, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review

RURAL MUNICIPAL DEVELOPMENT

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Part I. Summary and Recommendations

A. Face Sheet Data

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT PAPER FACESHEET TO BE COMPLETED BY ORIGINATING OFFICE		1. TRANSACTION CODE (X) APPROPRIATE BOX <input checked="" type="checkbox"/> ORIGINAL <input type="checkbox"/> CHANGE <input type="checkbox"/> ADD <input type="checkbox"/> DELETE		PP <hr/> DOCUMENT CODE 3
2. COUNTRY/REGIONAL ENTITY/GRANTEE Republic of Panama		3. DOCUMENT REVISION NUMBER		
4. PROJECT NUMBER 525-0176	5. BUREAU A. SYMBOL B. CODE LA 3		6. ESTIMATED FY OF PROJECT COMPLETION FY 7 9	
7. PROJECT TITLE - SHORT (STAY WITHIN BRACKETS) <input type="checkbox"/> RURAL MUNICIPAL DEVELOPMENT <input type="checkbox"/>		8. ESTIMATED FY OF AUTHORIZATION/OBLIGATION MO. YR. A. INITIAL 9 76 B. FINAL FY 9 76		
9. SECONDARY TECHNICAL CODES (MAXIMUM SIX CODES OF THREE POSITIONS EACH)				
710	120	720	252	

10. ESTIMATED TOTAL COST (\$000 OR EQUIVALENT, \$1 = B/1.00)

A. PROGRAM FINANCING	FIRST YEAR			ALL YEARS		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
1. APPROPRIATED TOTAL			4,000			4,000
(GRANT)	()	()	()	()	()	()
(LOAN)	()	()	(4,000)	()	()	(4,000)
2. COST ELEMENT			700			3,000
3. OTHER			-			-
TOTALS			4,700			7,000

11. ESTIMATED COSTS/AID APPROPRIATED FUNDS (\$000)

A. PROGRAM RELATION AND CODE	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE	CY 76		CY 77		CY 78		ALL YEARS	
			D. GRANT	E. LOAN	F. GRANT	G. LOAN	H. GRANT	I. LOAN	J. GRANT	K. LOAN
FN	103	033	-	4,000	-	-	-	-	-	4,000
TOTALS				4,000						4,000
ESTIMATED EXPENDITURES				1,175		2,089		736		4,000

12. PROJECT PURPOSE(S) (STAY WITHIN BRACKETS) N.A. CHECK IF DIFFERENT FROM PID/PRP

Enhance the capabilities of rural municipios to stimulate productive activities and to develop and integrate market town systems providing access for the rural poor to social services and the market economy.

13. WERE CHANGES MADE IN THE PID/PRP FACESHEET DATA NOT INCLUDED ABOVE? IF YES, ATTACH CHANGED PID AND/OR PRP FACESHEET.
 YES No N.A.

15. ORIGINATING OFFICE CLEARANCE SIGNATURE: George Rublee <i>George Rublee</i> TITLE: Acting Director USAID/Panama		16. DATE RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MO. DAY YR. 0 9 0 4 7 5
		MO. DAY YR. 0 9 0 8 7 5

B. Summary and Recommendations

1. Borrower: The Borrower will be the Government of Panama, which will contribute the loan proceeds on a non-repayable basis to the National Bank of Panama (BNP). The BNP will be the executing agency through a newly created Municipal Development Fund which will be established to provide local governments with technical assistance, training and credit. In implementing the project, the BNP will act in close collaboration with other GOP agencies with related or complementary assistance programs to the municipios.

2. Loan:

a. Amount: Not to exceed Four Million Dollars (\$4,000,000).

b. Terms: Repayable in dollars within forty (40) years including grace period of ten (10) years. The interest rate will be two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

3. Project Financial Plan (\$000)

TOTAL	Total		Sub Loans	T.A. to the Fund	Operating Costs
	\$	%			
	<u>7,000</u>	<u>100.0</u>	<u>5,736</u>	<u>264</u>	<u>1,000</u>
AID	4,000	57.0	3,736	264	---
GOP	1,100	16.0	1,100	--	---
BNP	1,475	21.0	475	--	1,000
Municipios	425	6.0	425	--	---

The host country contribution is \$3.0 million or 43% of the total project cost of \$7.0 million. The Government will contribute \$1.1 million in cash in accordance with a mutually acceptable financial plan. In addition, the Government has agreed to continue to contribute to the Fund after disbursement of the loan. The Bank will contribute \$1,475,000 in operating costs and cash from its own resources. The municipios will contribute an average of 15% of sub-project costs in cash or in kind, for a total estimated amount of \$425,000.

4. Goal and Purposes: The goal of the project is to strengthen the constitutional process by institutionalizing the participation of local government units to assume a larger role for identifying and meeting many of the socio-economic needs of their inhabitants in concert with national and regional development programs. The strategy for goal achievement is inherent in the sub-goal which calls for enhancing the capabilities of the rural municipios to (a) stimulate and provide productive activities and social

services and (b) develop market town systems which provide access for the rural poor to essential social services and the market economy.

The purpose of the project is to improve the quality and quantity of rural municipio administration, and productive activities by concentrating on (a) technical assistance and training in municipal administration, development planning and project preparation and implementation, and (b) by providing financial resources for food, rural development and nutrition sub-projects. The project will assist in institutionalizing the capacity within the National Bank of Panama to provide technical and financial assistance on a systematic, continuing basis to municipios while focusing exclusively on rural municipio projects of benefit to the rural population. The success of this project should result in an improved local decision-making and development planning capability and in the mobilization of local and national resources for local rural development.

5. Project Description: The Project consists of assisting the Municipal Development Fund and providing it with resources to carry out a technical assistance and lending program for rural municipios. It includes: (a) long term credit for agriculture related municipal infrastructure and services; (b) technical assistance and training to strengthen municipio administrative capacity; and (c) technical assistance and training for the Fund staff.

The Fund's overall responsibilities transcend attainment of the Project objectives since the Fund may provide financial and technical assistance to any municipio for legitimate social and economic development purposes. The Project, on the other hand, represents a refinement of that overall mandate in the sense that it concentrates on the rural development portion of Panamanian municipality activities. At the outset the \$7.0 million Project represents, by far, the greatest portion of the \$8.5 million Fund's activities.

The Project strategy will give priority to development of those towns and surrounding agricultural areas which have been selected for emphasis according to the GOP's growth center/market town development strategy described herein. This strategy has been selected as the most effective way for municipios to contribute to the overall integrated rural development effort for the benefit of the rural poor. Other rural municipios, not actually a part of the strategy, will be eligible for project assistance that meets the criteria established for the Project. On the other hand, the two principal urban areas, Colon and Panama City, are not included in the Project.

Sub-loans will be made for projects which contribute towards increasing the productivity and income of the rural poor. Priority will be given to those sub-projects which:

- a. stimulate labor-intensive enterprises
- b. improve marketing facilities and systems
- c. expand local or small scale rural infrastructure and utilities
- d. support systems to provide services and supplies needed by farmers.

6. Summary Findings

Considering the constitutional mandate for municipal governments to assume greater responsibilities for planning, promoting, and executing projects and programs designed to improve the socio-economic conditions within their spheres of influence; considering the political conviction and determination of the present Government to promote the administrative capacity of local government entities; and in view of the growing number of government sponsored programs aimed at improving the living standards of the rural populace, it is appropriate and necessary to provide the municipios with direct and continuing infusions of capital and technical know-how to encourage their constructive and meaningful involvement in the development process.

The decision of the GOP to establish a Municipal Development Division and Fund within the National Bank to serve as a conduit for channeling credit, technical assistance and training to bolster the administrative and technical capacity of the municipios, is considered by the USAID Mission to be reasonable and sound. The BNP is already in the development banking field for livestock, industry, and fisheries; the BNP has had previous experience in lending to municipios; the existence of 37 Bank branch offices and mobile service units provides a made-to-order country network reasonably accessible to the municipios; the BNP serves as the national depository for all municipal funds; and using the Bank's resources represents a more cost-effective approach since most of the required overhead for servicing sub-loans is already in place.

The mechanisms contemplated for identifying the administrative and investment needs of municipios, establishing their feasibility, and developing comprehensive sub-projects to address the training, technical assistance, and investment needs of the municipios, offer a practical approach to a difficult set of problems. In addition to providing a significant level of capital for meeting municipio investment needs - averaging \$1.8 million annually over the first ten years of Fund operations, the Project provides for technical assistance and training inputs for both Fund staff personnel and municipal governments participating in the Project. Consultants to the Fund will render on-the-job training in specialized operational areas, assist in the design of training and technical assistance programs for municipal officials and employees, and advise Fund staff on technical criteria appropriate for analyzing certain categories of sub-projects. Technical assistance and training for municipal governments will be administered in two ways: the Fund will offer general training programs in municipal government administration, including plans for improving municipal revenue levels; additionally, training and technical assistance related to specific sub-projects will be provided by the Fund, other GOP agencies through the Technical Coordinating Committee mechanism, or private consultants. In summary, the Fund will provide a focal point for marshalling available resources to focus in a comprehensive manner on the various municipio needs.

From a socio-cultural viewpoint, the Project will provide an additional instrument for strengthening the present Government's efforts to obtain popular participation in setting development priorities. Furthermore the Project will accommodate the expressed desires of local government representatives to receive more decision-making power as well as the financial and technical wherewithal to meet their own development priorities. Every sub-project financed from the Fund will be determined in the first instance by the local municipio, not by the central government authorities. It is reasonable to conclude, therefore, that both municipal officials and their constituents will respond positively to the financial and technical resources to be provided under the Project.

It is the Mission's judgment that the Project is financially viable. The National Bank of Panama, charged with executing the Project, has been growing steadily in terms of loans, deposits, capital and reserves in a balanced manner. Net income has been relatively stable and adequate to provide a steady increment to the capital account in the form of retained earnings. The Bank's record for establishing realistic annual

operating budgets and adhering to them has been good.

Projections for the Municipal Development Fund indicate a low positive rate of return on the Fund's capital beginning in 1980 (1.7%) and rising to 2.5% by 1984. This modest rate of return is characteristic of development oriented credit institutions. The Fund will be adding to its lending capital from internal earnings and GOP contributions after the Loan disbursement period, permitting an average annual lending rate of approximately \$1.8 million over the first ten years of Fund operations. It should be noted that no liabilities are projected for the Fund since the A.I.D. loan and counterpart funds to cover technical assistance and operating costs are donated to the Fund by the GOP and appear in the capital reserve account. This will enable the Fund to obtain additional capital from other sources to expand its operations or to incur contingent liabilities for guaranties it might provide for loans obtained directly by municipios from other lenders. The cash flow projections indicate that the Fund will have sufficient operating capital to carry out its program as planned.

7. Checklist of Statutory Criteria: All Statutory Criteria have been met. (See Annex E.)
8. Other Sources of Funds: The Export-Import Bank, IBRD and IDB have all informed A.I.D. that they are not prepared to consider this Project. Commercial lines of credit are not appropriate for capitalizing a development institution.
9. Recommendations: It is recommended that a Loan be authorized to the Government of Panama for an amount not to exceed \$4.1 million, subject to the following terms and conditions:
 - a. Prior to disbursement for technical assistance, Borrower shall submit a time-phased plan for the provision of technical assistance to the Fund.
 - b. Prior to disbursement for other than technical assistance, Borrower shall submit:
 - 1) Evidence of the establishment of the Fund and the adoption of regulations governing subloans to be financed under the Project, including but not limited to, credit policy, loan approval procedures and procurement regulations.
 - 2) Evidence of the promulgation of the decree law which:
 - a) Creates the advisory council to the Fund and the technical coordinating committee and delineates their powers and responsibilities; and

- b) Authorizes the National Bank of Panama to make loans to municipios without receiving prior government approval of each subloan.
- 3) Evidence of arrangements to provide appropriate technical assistance to the municipios in support of the Project from agencies of the Borrower other than the National Bank of Panama.
- 4) Evidence of arrangements between the Fund and participating agencies to carry out the training program for municipio and Fund personnel, including availability of adequate funds and training personnel.
- c) The Borrower shall cause to be contributed not less than \$3,000,000 to the Project of which not less than \$2,000,000 shall go to sub-loans with the Project.
- d) Sub-projects located in Panama City and the City of Colon may not be included in the Project.
- e) Repayments of subloans to the Fund as well as commissions and interest thereon shall remain available to the Fund, and the Loan and interest thereon will be serviced from the Borrower's other revenues.
- f) During disbursement of the Loan, AID will be provided with a copy of each subloan application being considered for financing within the Project, and AID shall have the right to consult with the Fund thereon.
- g) The Borrower shall conduct annual evaluations of the Project with the Fund and with AID during disbursement of the Loan.

10. Project Committee

A. Capital Assistance Committee

George Rublee
Joslyn A. Fearon, Jr.
Bernard Chapnick
Bruce Berry
Pedro Pablo Morcillo
Ronald Ulrich
Barry Burnett

B. GOP Project Committee

Lic. Hector Pinilla
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C. Other Contributors

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Thomas Chapman
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Vilma Jaen
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A. Background

1. Historical Perspective of the Municipal System of Government in Panama.

The municipal system as a form of local government has deep historical roots in Panama, having been in existence for more than four centuries. Traditionally, the municipio has been the center of the most varied activities including the provision of basic local public infrastructure and traditional public services such as police and public security. Wide dispersion of the rural population on one hand, and the centralization of economic and political power in the National Government, on the other, has had a negative effect on the traditional activities and on the image of the municipio as an institution. Over time, these have deteriorated to a state of which is characterized by their limited administrative and financial capacities. On numerous occasions the central government has sought to improve the state of the municipios, but the measures taken were insufficient and had little impact.

The first attempt to substantially reform the Municipal System occurred with the adoption of the 1946 Political Constitution. Article 186 of that Constitution defined the Municipio as the political base of the state with complete autonomy and instructed the legislators to provide this local government with adequate financial resources to maintain an adequate municipal public administrative structure. The law that was to implement this constitutional precept however, was deficient with the end result that very little change occurred.

The Political Constitution adopted in 1972 and Law 106 enacted in 1973 introduced significant changes in the municipal system. The more significant of these changes are as follows:

a. -An increase in the functions and responsibilities of the municipios.

In addition to the traditional role of political organizations, the municipios are charged with the responsibility of promoting the development of the areas within their jurisdiction in close collaboration with the central government.

b. -The introduction of a more representative form of government.

Representatives are elected to the municipal councils based on geographic distribution of the population rather than along party lines. This tends to reduce the traditional predominance of representation from the county seats on the municipal councils while at the same time providing increased representation of the rural wards.

c. -Unification of the executive and legislative functions of the municipios within one organization.

BEST AVAILABLE DOCUMENT

The alcalde, as president of the municipal council, actively participates in the deliberations with voice and vote. Decisions are made by majority vote and the alcalde, as the chief executive, implements them.

d. -Flexibility in the administrative organization of the municipio.

The constitution and the law establish the Municipal Council and its functions and determine the responsibilities of key municipal officials such as alcaldes, treasurers, and auditors, but permit the municipios complete flexibility to organize their administrative structure taking into consideration their particular circumstances.

e. -Close collaboration with the Central Government.

The unique circumstance by which the elected representative is a member of the Community Council, the Municipal Council, the Provincial Coordinating Council and the National Assembly of Representatives places him in the position of participating at different levels of the GOP decision making process. Thus, an inherently close working relationship exists between local and national governments. In addition, the adoption of a regional development strategy in which the municipio has an important role to play and the participation of the elected representative in the development of national and provincial investment programs are added links which serve to strengthen the central government-municipio relationship.

2. Basic Characteristics of Local Governments.

a. -Political Divisions and Primary Functions of Local Governments.

Article 5 of the 1972 Political Constitution of Panama divides the country into province (or states), municipios (or counties), and corregimientos (or wards) and establishes three levels of local government.

There are nine provinces, 66 municipios and 505 corregimientos.

The Corregimiento: The corregimiento (or ward) is a subdivision of a municipio (or county). It is the smallest political subdivision and constitutes the real political base of the country. The representative system is based on elected representatives from each corregimiento who participate in the decision making process on several levels of governments ranging from the junta comunal or community council to the National Assembly of Representatives which has limited legislative functions. They are elected for a term of six years.

In each corregimiento there is a junta comunal with the primary functions of promoting the development of the corregimiento and of seeking solutions for its problems. The junta comunal is made up of the elected representative of the corregimientos, who chairs it, the corregidor, who is appointed by the Governor of the Province, and three other residents of the corregimiento, who are also generally elected.

The junta comunal may organize neighborhood organizations or juntas locales whose members are directly elected by the residents of each neighborhood. Both the juntas comunales and juntas locales may form committees to resolve common problems of a local nature relating to production, health, education, housing and social welfare.

The Municipio: The municipio is the local government with jurisdiction over the county area and has all the characteristics of a true government. It possesses legislative and administrative functions, taxing powers and specific areas of responsibility. The municipio through its municipal council, is primarily responsible for the organization and administration of public activities within the district, including the formulation and implementation of development plans and programs within its area of jurisdiction.

The municipal council as previously indicated, combines the administrative and legislative functions of the municipal government. It is made up of the elected representatives and the alcalde, who is the president and chief executive officer. The alcalde is selected by the elected representatives from three nominees presented by the governor of the province. He is appointed by the governor for a period of three years and may be reappointed for an additional three year period.

Other key officials of the municipios are the secretary, the treasurer, the auditor, the engineer and the legal advisor. The costs of the auditor's services are borne by the Controller General's office unless municipal revenues exceed \$500,000 per year.

The Province: The provincial government is an intermediate form of local government (between the municipio and the national government) with the primary function of coordinating the formulation and implementation of central government of local government plans and programs at the provincial level in support of the GOP's development strategies. The provincial government is headed by the governor who is appointed by the President and who acts as his representative. At this level, there is a provincial coordinating council made up of the governor of the province, who presides; the chief of the military zone; the elected representatives of the corregimientos within the province; and the provincial chief of each of the Ministries and autonomous agencies.

The Provincial Coordinating Council is organized into:

(1) an Executive Board made up by the governor who chairs it, a Vice president who is an elected representative of a corregimiento, and a secretary; (2) a technical Board made up by the governor and the representative of the Ministries and autonomous agencies; and (3) task forces made up by the elected representatives of the corregimientos within the province.

The primary functions of the Provincial Coordinating Council are:

- promote and coordinate all public activities at the provincial level.
- serve as consulting board for the legislators.
- participate and coordinate the development programs at the province level; evaluate the implementation of these programs.
- propose laws and regulations.

b. Municipal sphere of action

The Political Constitution adopted in 1972 and Law 106 enacted in 1973 not only permit the municipios to participate in a wide range of activities, but direct their promotion of public and private enterprises.

The constitution directs the municipios to play an active role in economic development and in the social well-being of the community. More specifically, Law 106 charges the municipios to perform the following functions within their area of jurisdiction:

(1) Development Planning and Programming

In close collaboration with the Ministry of Planning, the municipios are required to formulate their development strategy and policies; prepare, evaluate and implement development programs and projects; prepare and approve municipal public investment and operating budgets.

(2) Provision of Public Services

Either directly, or indirectly, through concessions or special agreements with other public or private enterprises, the municipios are required to provide the following public services: potable water, sewerage, drainage, power and light, gas, telephone, transportation and refuse disposal. In addition to these services, the municipios are also required to provide, according to need and

feasibility, public markets, slaughterhouses, parks, cemeteries, streets and roads.

(3) Promotor and Participant in Productive Activities

The functions and responsibilities of the municipios include also the provision of adequate incentives for promoting the creation and establishment of small businesses and industries, co-operatives, and other productive enterprises in collaboration with other government entities. They are also empowered to create productive enterprises either wholly owned by the municipio or with mixed ownership.

c. Local needs and services

In virtually all of the municipios there are unfulfilled needs in terms of public services, as well as deficiencies in those services that are available. The lack of, or deficiencies in, basic public services include potable water, sewerage, refuse disposal, power, markets, schools, health centers, slaughterhouses, feeder roads. The 1970 census indicated that of the 295,321 housing units in the country at the time, 35.7% did not have potable water and 48.1% were without electricity. While the situation has improved since, the deficits in these services are still substantial in the rural and semiurban areas of the country.

For the most part, the rural municipios have traditionally encountered extreme difficulties in their efforts to provide even a bare minimum of the public services that are required. As a result, many of the services which traditionally are provided by municipios such as potable water, sewerage, light, power and access roads, are either not provided at all or are being provided on a limited basis by national decentralized agencies with little or no local participation.

2. Major Constraints

In the process of implementing the constitutional mandate of serving as the promoters and as key engines of growth and development within the areas of their jurisdiction, the municipios are faced with a number of constraints. Among the more significant are population dynamics, inadequate technical and administrative capabilities, limited tax base, inadequate financial resources, inadequate rural services and infrastructure.

a. Population Dynamics

The Panamanian Census and Statistics Bureau estimates the total population of the country for 1975 at 1.7 million. The current annual rate of growth of the population is slightly less than 3%. In addition to this relatively high growth rate, rural-urban migration has been more pronounced in recent years. While in 1950, 64.0% of the population was located in rural areas, for 1960 and 1970, the proportion was 58.5% and 52.4% respectively. The estimates for 1975 indicate about 51%. Areas that have experienced heavy out-migration are the provinces of Los Santos, Herrera and Veraguas. The Province of Panama and, to a lesser degree, Bocas del Toro have been the recipient of the rural-urban migration. The 1970 census also revealed that there were 9,313 populated places, 80% of which had less than 100 persons and only 15% of the total population. On the other hand, five cities with 25,000 inhabitants or more, concentrated 37% of the population.

Thus, the relatively high rate of growth of the population, the migratory patterns, the wide dispersion of a significant segment of the population are constraints which tax the capabilities and limit the resources of the municipios in their efforts to be responsive to the needs of their constituents.

b. Inadequate Technical and Administrative Capabilities

The municipios are legally authorized and charged to provide basic public services for the population within the area of their jurisdiction. In the provision of these services, the municipios have the options of providing them directly, through concessions or by creating public or quasi-public enterprises. To carry out these functions they have the authority to tax, acquire and dispose of assets, incur indebtedness and establish their own internal administrative organization.

For the most part, however, the municipios have difficulties in fulfilling their responsibilities. While there is no precise inventory of the status of the services that municipios are now providing, there are obvious deficiencies in the provision of services such as schools, potable water, transportation terminals, feeder roads, power, marketing and health.

The inadequate technical and administrative capability of a significant number of rural municipal staff and technical personnel is one of the primary causes of the low level of services the municipios provide. This inadequacy is reflected in the staffing pattern of the typical rural municipio. The alcalde or chief executive of the municipal council is, in most cases, not likely to be a trained administrator. The function of the elected representatives to the municipal council is primarily that of identifying problems within their communities, recommending and adopting measures leading to the solutions of these and establishing policies. But they are not responsible for administrative details. Most rural municipios do not have an engineer. In many cases the auditor assigned by the Controller General's Office informally doubles as the Chief Accountant. As a result, deficiencies are noted in tax collections, in planning and project preparation, in the preparation and implementation of budgets that reflect community priority needs, and in the provision of adequate services.

c. Limited Tax Base and Inadequate Financial Resources

Municipal revenues during the 1972-74 period amounted to 8% of the revenues of the central government. Of this 8%, roughly two-thirds came from the municipios of Panama, Colon and San Miguelito. Major sources of municipal revenues are taxes on commercial and industrial activities which account for about 75%; sales and rentals of municipal properties, about 10%; services, about 5%; miscellaneous and other about 10%. Subsidies to the municipios from the Central Government amount to about 3% of total receipts.

As a result of reforms incorporated in the 1972 Political Constitution and subsequent legislation in 1973, the following tax sources, formerly national taxes, were granted to the municipios: (1) livestock slaughter tax, (2) taxes on the sale of alcoholic beverages, (3) taxes on public spectacles, and (4) extraction taxes on lumber, sand and gravel. Additional measures adopted with a potential positive impact on the revenue base of municipios are as follows: (a) Municipios with revenues below \$500,000 annually are liberated from paying the salaries of municipal judges, district attorneys and auditors. This measure directly benefits 58 of the 65 existing municipios; (b) with the adoption of Law 106, municipios no longer had to contribute about 32% of their revenues to national programs of education, sports, public health, and to miscellaneous institutions such as the fire departments and boy scouts. As a result of the new legislation the municipios are at liberty to determine their contribution; (c) the municipios also benefit from budgetary measures recently adopted by the Central Government which identify specific projects in the national investment budget with a primarily local impact and which transfer the resources and the responsibility to the municipio for their implementation. While the volume of these projects are small at this time, the potential for the municipios increasing their

participation in the implementation of development projects currently budgeted by the Central Government is promising. The GOP has expressed its desires to increase this participation as quickly as the municipios are able to absorb the increased resources and responsibilities. Another measure which indirectly benefits the municipios is the Central Government budgetary seed-capital contributions to the juntas comunales and the Provincial Coordinating Councils. Each junta comunal, of which there are 505, receives \$1,000 budgetary support, while each of the 10 Provincial Councils receives \$100,000. These are potential sources of funds for feasibility studies, project counterpart and special technical assistance and training programs.

These measures will have a definite positive impact on the revenue potential of the municipios, although the effects are not precisely predictable at this time. Furthermore, the impact will not be uniform since conditions and circumstances vary widely among the municipios.

While these measures represent important first steps toward improving the financial state of the municipios, more can be accomplished, and should be, by both the Central Government and the municipios themselves. To illustrate:

(1) The property tax, which in other countries has been traditionally a municipal revenue source, is in this case a source of revenue for the Central Government. The yield of this tax is about \$10.0 million or about 2.5% of Central Government revenues. While the GOP has in the past considered the possibility of transferring this tax to the municipios, it is not prepared at this time to relinquish it, at least not until the municipios are administratively capable of efficiently making optimum use of its proceeds.

(2) Since 1947 the Central Government has been providing budget support to the majority of the municipios. However these transfers have been made without any rational set of criteria. The result has been that these resources have often been inadequate to help support an effective local government structure. The GOP is well aware of this and recently established a task force which studied the situation and made among others, the following recommendations to provide and even increase the subsidies to those municipios which fit into the following categories:

(a) municipios whose revenues, even after taking into account the tax reform and other measures, are insufficient to cover their operating budget.

(b) municipios located in the poorest poverty areas, as determined by the Ministry of Planning and Economic Policy.

(c) municipios which after covering operating expenditures have very little left over for financing their investments.

While these recommendations have not yet been acted upon, they do indicate the GOP's awareness of the situation and a willingness to correct it.

(3) An indication of poor financial management on the part of the municipios is the increasing practice of financing operating expenditures with the proceeds from the sale of land. Excluding the municipios of Panama, Colon and San Miguelito, the proceeds from the sale of land represent approximately 12.5% of the total municipal receipts. These proceeds are very significant items in the revenue picture of the municipios of La Chorrera, Santiago, Aguadulce and David. The use of these funds for financing operating expenditures also indicates that the municipios are not properly utilizing the land they own as instruments for economic and physical development.

(4) About 85% of rural municipal revenues are used to finance operating costs, contributions to support national programs and for servicing municipal public debt. The remaining 15% cover investment expenditures. Considering the deficiencies in public services and rural infrastructure previously noted, the historical level of investment has been very low.

3. The GOP Development Strategy

The long range goals of the development strategy of the Government of Panama, as stated in public official documents, are two-fold. Briefly stated, these are: (1) maintain a high and dynamic growth of the economy, and (2) improve the distribution of the benefits of this growth.

The strategy seeks to eliminate the existing inequalities at both the national and regional levels in the distribution of wealth and opportunities. It recognizes that in order to provide an increasing number of occupational activities at adequate remuneration with the least social cost, additional wealth must be created. Therefore, continued high rates of growth are a necessary concomitant to the GOP's policies for income distribution.

(a) Strategy for Maintaining High Growth Rate

The strategy outlines four specific areas for government priority action which should reasonably assure continued high rates of growth of the economy over the next decade. These are: (1) increase and diversification of exports; (2) improvement and expansion of basic infrastructure; (3) direct investment in job creating activities; and (4) special attention to certain key selected sectors.

(1) Export Growth and Diversification

The strategy for export growth and diversification centers on the development of non-traditional goods and services for export purposes, while at the same time stimulating increased production of traditionally exported goods and services. It is based on the diagnosis that readily available import-substitution opportunities which permitted rapid growth of the manufacturing sector during the 60s have been virtually exhausted. It thus recognizes that vigorous growth cannot be tied to the process of import substitution with perhaps the only exception being that of agribusinesses. To pursue such a course would entail a high social cost, due to the limited market that the country has to offer, limiting potential growth to virtually only that of the annual increment of the population. In addition, opportunities for developing economies of scale, as well as, increasing the benefits of specialization, would not be forthcoming.

Within this refocussing of the thrust of the national economy the GOP plans to play a key role since the level of necessary estimated investments at this time exceeds the debt capacity of the private sector.

(2) Improvement and Expansion of Basic Infrastructure.

The improvement and expansion of basic infrastructure now underway is one of the many instruments the GOP possesses to stimulate increased private sector participation and contribution to the productive process. Massive infusion of resources is planned for investments in electrification, transportation and communications over the next five years. Ongoing projects include: completion of the Interamerican Highway, the hydroelectric projects of Bayano and Fortuna, the new international airport, a fishing port, a container port, (currently in the pre-bid stage), an oil pipeline, and a road construction and maintenance program.

(3) Direct Investment in Job Creating Activities

In addition to the job-creating benefits of the basic infrastructure programs, the GOP intends to allocate investment funds directly to a number of industrial and agro-industrial projects. These in effect would be state enterprises, although it is possible that some of these facilities would be later converted into cooperatives. The sugar mills are a good example. Currently, the GOP owns and operates a large sugar mill with three more scheduled to come on-stream over the next two to three years. The existing mill has not only created employment in the processing phase but has had a definite and positive impact in job creation and income distribution on the population in the surrounding areas: subsistence farm families have entered the money economy by growing sugar cane; the harvesting and transportation of the cane have also created jobs.

Plans for GOP direct investment in a state owned cement plant as well as in the extraction and processing of copper are also underway.

(4) Special Emphasis in Selected Sectors

The Colon Free Zone, Tourism, and Finance are three economic activities the GOP has identified for special attention. These activities provide the highest potential for improving employment and income during the short and medium term.

Emphasis on the expansion and improvement of these activities is a key element in the GOP's strategy for stimulating domestic and external private investment.

(b) Strategy for Improving Income Distribution

As stated above, a priority goal of the GOP is to effect a wider distribution of the benefits of the economic growth of the country. To effect this strategy the GOP has:

(1) Increased expenditures in those areas which directly affect the living standard of the low income groups such as, nutrition, health, education, transportation, and housing.

(2) Designed policies and activities to incorporate the less advantaged populace into the productive process and to use their full potential for their own benefit as well as for the country's. Among the more significant are: improving the productive and marketing capacities of small farmers, improving rural education, expanding health services into the countryside, improving the national farm price support system.

(c) The GOP Regional Development Strategy

The regional development strategy of the GOP is a refinement of the national development strategy. The twin objectives of increased economic growth with wider distribution of the benefits are maintained. The subdivision of the country into regions facilitates the development of specific strategies and policies as well as the design of specific programs to satisfy and solve the diversity of needs and problems throughout the country.

To this effect, four regions have been identified:

(1) The Eastern Region includes the province of Darien, the San Blas area, and eastern portions of the Provinces of Panama and Colon.

(2) The Metropolitan Region includes areas of the provinces Panama and Colon bordering the Canal Zone.

(3) The Central Region includes the western area of the provinces of Panama and Colon, the provinces of Cocle, Veraguas, Herrera and Los Santos.

(4) The Western Region includes the Provinces of Chiriqui and Bocas del Toro.

It should be noted that the identification of these regions, at this stage, can only serve as a means of analysis and not as identification of executing units. Lacking is the legal base as well as the institutional apparatus.

The global policies for the development of each of these regions are summarized as follows:

(1) Eastern Region: A policy of controlled colonization and integration has been enunciated for this region. This policy reflects the need to develop the natural resources of the region rationally and to direct and control the colonization process within the area. In addition, the GOP will seek to integrate the San Blas

area with the rest of the country physically, economically and culturally.

(2) Metropolitan Region: The global policies for this region can be summarized as controlled growth and spatial rationalization. These policies respond to the need to maintain a certain degree of equilibrium in the development of this region relative to the others, particularly the Central and Western regions. From this region surpluses will be channeled into the other regions.

(3) Central and Western Regions: In summary the policies for these regions may be stated as the development of growth and service centers in the rural areas and a greater concentration of the population around them. These policies reflect the need to link the basically subsistence agricultural economy of the region to sectors of more dynamic growth i.e., agribusinesses and light manufacturing and establishing linkages between the rural and urban areas.

There are several national policies and programs that impact on the regional strategy and make it truly operational. These are summarized as follows:

(1) Integrated Rural Development: This policy seeks to improve the quality of life of the rural populace through an increase of their incomes, increased employment opportunities and their incorporation in the market economy as well as an increase in agricultural production. The primary instruments for the implementation of this policy are: (a) selection of those poor areas with the highest potential for agricultural development and the identification of the products best suited for each area; (b) organization of the communities in these areas; (c) concentration of rural settlements; (d) the provision of adequate credit and other incentives; (e) the provision of technical assistance and training; (f) the creation of productive enterprises; (g) the provision of adequate economic and social infrastructure; and (h) improvement and strengthening of the marketing system.

(2) Strengthening Selected Growth and Service Centers: The purpose of the GOP's policy for strengthening certain selected semi-urban areas as growth and service centers responds to the need for effecting a more harmonic growth of the different geographic areas of the country. It seeks to incorporate the more marginal areas into the development process by establishing and strengthening linkages between them and their nearest urban centers in the belief that each will contribute more to each other's economic and social development when the linkages between them are strengthened. Operationally, it means concentrating development efforts on specific geographic areas to achieve greater impact rather than dispersing such efforts throughout the country.

Growth centers are defined by the GOP as those rural towns with a relatively diversified economic base and with the potential for a substantial increase in manufacturing activities; also present is the potential for generation surpluses which can be channeled into their hinterlands. David (population 44,500) in the Western Region and Chitré-Los Santos (population 20,900) in the Central Region have been selected by the GOP as growth centers. Service centers are smaller with an economic base associated primarily with agriculture but seeking to provide public services, i.e., health, education, technical assistance and marketing, to the rural areas within its sphere of influence. The service center would serve as an intermediate contact point linking the growth centers with the rural hinterland. The service centers selected by the GOP in the Central and Western Regions are Santiago (population 27,000), Agudulce (population 10,000), Penonomé (population 8,500), Las Tablas (population 4,600), Soná (population 6,700), Puerto Armuelles (population 14,000), La Concepción (population 14,200), and Boquete (population 7,900). Isolated on the Atlantic Coast pending the completion of a road between David and Almirante, the towns of Almirante (population 7,700), Bocas del Toro (population 3,500), and Changuinola (population 12,000), have been identified as potential service centers. Likewise, contingent on the establishment of the appropriate mechanisms which would effect an orderly colonization of the Eastern Region, the towns of Chepo (population 9,000), and Yaviza (population 3,000), have also been identified as potential service centers.

Specific actions contemplated by the GOP in order to implement this policy include, as a minimum the following for these areas:

1. the preparation of special development plans in order to provide guidance for the physical growth of these areas;
2. the provision of the basic economic, social and cultural infrastructure for the economic growth of these areas;
3. increase in the supply of housing for low and middle income groups;
4. research for the development of manufacturing activities;
5. the provision of technical training to small and medium size industrial entrepreneurs, as well as, upgrading of the labor skills needed for industrial and commercial activities;
6. the establishment of special incentives for the location of manufacturing and processing industries with particular emphasis on agribusinesses;

7. the decentralization and regionalization of basic public services;

8. special attention to the upgrading of municipal government officials to provide them with the necessary tools to help them cope with the additional administrative and financial responsibilities that will be placed upon them;

9. special assistance to those areas within the influence of the growth and service centers.

(3) Regionalizing and Localizing Public Administration:
This policy responds to the need to strengthen the institutional apparatus of the newly created political structure whereby all levels of governments are stimulated to participate in the integrated development process. Specific actions for implementing this policy include:

1. strengthening the Provincial Coordinating Councils through technical assistance and training, enabling them to perform their functions more efficiently;

2. strengthening the administrative and financial capabilities of municipal governments, as well as, the capabilities of the juntas comunales in the Corregimientos to participate in the development process;

3. creation of a regional information system;

4. strengthening of provincial and regional planning offices;

5. creation of regional authorities, in particular, the Council of Governors and the Regional Coordinating Economic and Social Sectors Committees.

(d) The GOP Strategy for Local Development

The 1972 Constitution assigns to municipal governments the primary function of promoting, planning and executing the socio-economic development in the area under their jurisdiction, in close collaboration with the central government. Given the present inability of the municipios to fully implement this mandate, the GOP has developed a strategy for upgrading their administrative and financial capabilities so that they may effectively participate in the development process of the country.

(1) Local Development Goals: The strategy for local development sets forth the following goals:

1. strengthening the administrative and financial capabilities of municipal governments to be more responsive to the needs of their constituents;

2. more efficient utilization of the human and natural resources of the municipio for development purposes;

3. improving and expanding the scope of municipal services;

4. creation of municipal enterprises which improve and promote wider distribution of income of the rural population in activities not being effectively attended to by the private sector;

5. effecting a greater participation of municipal governments and their constituents in the decision making process in local, regional and national development.

(2) Specific Actions for Accelerating Local Development:

In order to overcome the current constraints to full participation of the municipal governments in the development process as called for by the Constitution, the GOP has designated specific actions to be implemented over the short and medium term. These are enumerated and summarized as follows:

a. Technical Assistance and Training

In order to improve the institutional and administrative capabilities of the municipios, to effect an optimum utilization of scarce human resources, and to promote increased popular participation in the decision making process, the GOP intends to implement a program of technical assistance and training designed to improve municipal public administration. This program will also coordinate all activities of the state agencies and will concentrate in such areas as personnel management, budget preparation, execution and evaluation, administration of municipal public services and enterprises, identification and optimum utilization of municipal natural resources and planning.

b. Systematization of Municipal Taxation

This activity is required as a key element in the improvement of municipal revenues and in strengthening and expanding the tax base of the municipios. The GOP intends to implement a research and training program which would address the following areas: improvement of municipal taxation, identification of the types and magnitude of economic activities especially suited to municipal taxation, methods and procedures for a more effective and efficient collection process, improved criteria for establishing rates for municipal services, identification of potential areas for broadening the municipal tax base.

c. Optimum Use of Municipal Natural Resources

Programs designed to foster the best use of the economic resources located within the municipios and with a view toward strengthening their tax base will also be implemented. These will include identification and evaluation of the magnitude and the potential of the natural resources within the municipios, incentives to stimulate private interest in the development of these resources or, in the absence of private interest, the creation of municipal enterprises for these purposes, the provision of credit to the municipios for development purposes, and feasibility studies for municipal development projects.

d. Improvement and Expansion of Municipal Public Services

In order to contribute to the improvement in the standard of living of the populace the following activities are contemplated: improvement and regulation of existing municipal public services; identification of additional services to be provided by municipios; establishment of municipal enterprises for providing public services; research on alternative organizational structures for improving and expanding public services.

e. Revenue Sharing

As an instrument for the improvement of municipal finances, the GOP will, in the short-term, conduct a study of national tax sources with the view toward identifying those which could have a potentially high impact on municipal financial viability. This study would also recommend the feasible level of revenue sharing.

f. Transfer of Responsibilities and Resources for Implementation by the Municipal Government

As a part of its overall strategy for increasing popular participation in the solution of common problems and also as a means of increasing the resources available to the municipios, the GOP intends to continue and to increase the transfer of responsibilities and resources to the municipios for identifying and implementing those projects in its investment budgets that are of a local nature. These transfers would be accompanied with programs designed to provide adequate follow-up in terms of supervision and evaluation of the implementation of these projects to determine the feasibility of further future increments.

g. Credit Program for Local Development

In order to contribute to the availability of adequate funding for municipal development projects and to institu-

tionalize the capability effectively to provide and coordinate technical assistance and training to the municipios, the GOP has established a municipal development program. To this effect a Fund has been established to provide financial assistance on concessionary terms to the municipios with priority emphasis on food, rural development and nutrition projects in the poor rural areas.

4. Relationship to Other Programs

a. Place of Project in Country Program

This section reviews the relationship of the project to the Mission's DAP and rural development program.

(1) DAP: The municipal development project being proposed here was contained in the Mission's FY-77 ABS and approved as an FY-76 project.

(2) Rural Development Program: The proposed municipal development program of the GOP is designed to strengthen local government at the county level. It reinforces a basic component of the newly institutionalized political system by which local initiatives are linked with central government efforts. This is accomplished by enabling municipal governments to take part in the governmental processes of formulating, implementing and evaluating projects which their constituents desire. What makes this project unique and so important in the Panamanian setting is that while many channels have been opened to consult the grass roots, this project makes it possible for the rural Panamanian communities themselves to initiate and carry out projects through an infusion of financial, advisory and training resources.

This project will assist the GOP to realize its equitable goals of raising the levels of income and employment and improving the standard of living of the rural poor. As such, it forms an integral part of the Mission's overall rural development strategy which includes both agricultural and non-agricultural projects. These include the recently authorized Agriculture Marketing Loan and the Integrated Rural Development Loan proposed for the Interim Quarter (IQ) as well as the projected FY-76 Education Sector and rural Health Loans. The specific linkages are briefly summarized below.

(a) Agriculture Marketing Loan:

The purpose of this \$6,200,000 loan, which was authorized in June, 1975 is to increase the efficiency and effectiveness of the agriculture marketing and price-support system and expand its outreach to small farmers. The local markets, farm-to-market roads, and related rural infrastructure investments anticipated under the municipal development project will support and supplement the nationwide network.

(b) Integrated Rural Development:

Prior to October 31, 1976 (Interim Quarter), the USAID expects to present a \$7.0 million Integrated Rural Development (IRD) loan project for DAEC consideration. As defined in the IRR, the purpose of the IRD program will be to develop a capacity in the GOP to select, plan, and execute programs to develop rural impact

areas in an integrated manner by providing the necessary infrastructure, health services, education, agricultural technical services, and financial resources to enable such areas to achieve their economic potential. A.I.D. Loan funds will be utilized to finance the agricultural investment while social services will be provided from other GOP sources including the A.I.D. Education Sector and Rural Health Loans described below.

The projects to be developed under both the municipal development and integrated rural development loans are directly complementary and supportive of one another since they will be located in those rural areas which the GOP has singled out for priority attention within their emerging rural development strategy. This inter-related approach is described more fully in Section II B, Detailed Description.

(3) Education Sector and Rural Health:

Slated for authorization this fiscal year, these two loans will seek to reduce the considerable disparities between rural and metropolitan social services. They will improve the quality of services available in the municipios and will reinforce the municipios capability of holding people through improving the quality of life.

b. Consistency with CEPCIES Review

The last CEPCIES sub-committee meeting on the Panamanian economy was held during August of 1974. While the sub-committee did not deal specifically with the Panamanian Municipal Development Program, the final report did reflect satisfaction with GOP emphasis on rural development. The report particularly noted the level of public investments in the rural areas, especially those directed toward areas of extreme poverty, and the participation of the population in the decision making process of the GOP's development programs. Particular mention was made of the fact that many projects in the rural areas were a result of the initiatives of the rural communities themselves operating through the newly created political structure. As a result, the sub-committee recommended strongly that the GOP continue to pursue, on a priority basis, (1) the social integration of the population and the elimination of extreme poverty, and (2) its programs of integrated rural development and the expansion of agricultural production.

This program is consistent with these recommendations in that it is designed to strengthen the political, institutional, and economic structure of local governments. This program, coordinated with other related ongoing and planned programs (i.e. Cooperative Development, Marketing, Integrated Rural Development, Education and Health), will permit municipal governments to respond to local needs in a more effective manner within the framework of the national and regional development strategies.

B. Detailed Description

The GOP development philosophy and plan embrace several broad development objectives towards which this project contributes. These are:

1. Improved quality of life of the rural poor.
2. Increased local political and economic self-determination and reduced dependence on the Central Government.
3. More balanced growth among the different geographic regions of the country.

This project is one of many activities, actual and proposed, designed to contribute towards achievement of the development objectives. The goal to which this project is addressed is the incorporation of local government in the developmental process.

1. Goal: Strengthen the Constitutional process by institutionalizing the participation of local government units to assume a larger role for identifying and meeting many of the socio-economic needs of their inhabitants in concert with national and regional development programs.

The local government units referred to include those at the provincial, municipio, and corregimiento levels. It is planned that the development budget reviewed by the Provincial Coordinating Council which includes inputs from all three levels, will shift from a central government initiated/locally reviewed series of projects to a basically locally initiated/centrally reviewed budget.

At the municipio level, it is anticipated that a majority of the municipios will be providing and/or coordinating all of the services within their constitutional mandate. They are charged by the 1972 Constitution with the responsibilities for promoting the development of the areas within their jurisdiction. The important thing is that the municipios take more initiative, increase their participation and exercise more control over their own development.

The municipios should be able to achieve this goal if the new Municipal Development Fund successfully does its job which is defined below as the project purpose.

2. Project Purpose: Enhance the capabilities of rural municipios to stimulate productive activities and to develop and integrate market town systems providing access for the rural poor to social services and to the market economy.

It is anticipated that by the end of the project that at least 150 sub-loans to municipios will have been approved and that municipio revenues will be at least 60% higher than in CY 1975.

All of the rural municipios are potential clients and beneficiaries of the Rural Development Program and are expected to participate in the project in some capacity depending on their particular circumstances. Emphasis will be placed, however, on certain selected municipios. These will be those municipios in which the GOP has identified and selected certain market towns as potential growth and service centers. These municipios are in the central and western regions of the country in which about 70% of the rural population is located. Per capita income of the rural areas is approximately 1/3 that of the Panama City-Colon metropolitan area and is fairly evenly distributed throughout rural Panama. The GOP strategy calls for concentration of its development efforts and resources in the medium term in these areas with particular emphasis on programs and projects which effectively link the surrounding agricultural areas, economically and socially, with the growth and service centers. This is to be accomplished by emphasizing agricultural production and by providing the necessary basic infrastructure and social services. The strategy is based on the belief that a given level of investment for these purposes concentrated in the more densely populated rural areas will have a greater impact on more rural poor than by dispersing an equal investment throughout the entire country. The Municipal Development Program will support this strategy by strengthening the administrative and financial capabilities of the municipios involved in these programs and by providing financial resources for development oriented projects.

3. Project Outputs: The project outputs deal with administrative technical and financial capabilities which the municipios must strengthen if they are to exercise greater autonomy and control over their development. The specific out-puts to be achieved at the municipio level are:

- (a) value of the outstanding loan portfolio,
- (b) local officials trained,
- (c) municipio administration and evaluation improvement plans prepared and implemented, and
- (d) investigation and evaluation feedback provided.

4. Intermediate Outputs: An effective service capability must be established within the Municipal Development Division of the BNP if the outputs shown above are to be realized. The capacity to process the sizable loan portfolio anticipated and to deliver, in conjunction with the cooperating GOP agencies, the required technical assistance to the municipios must be present as should an in-house capability to obtain timely feedback on the impact of the sub-loan program. The specific targets to be treated in realizing these objectives are:

- (a) staff on-board and trained,
- (b) Technical Coordinating Committee operational,
- (c) baseline data to measure impact of overall program collected, and

(d) community impact studies undertaken.

Implementation of program components will occur both at the national and local levels as follows:

(1) Training of Fund Staff

The institutionalization within the BNP of a unit with the capability for providing credit, technical assistance and training to rural municipios will require a comprehensive training program for the Fund staff itself. To this end approximately 35 courses, 13 seminars and 3 observation trips will be provided to appropriate Fund staff and other GOP officials with responsibilities for providing technical assistance to the municipios as follows:

(a) project preparation and implementation. Approximately 40 participants and 1,200 man-days.

(b) Municipal taxation and finances. Approximately 36 participants and 1,080 man-days.

(c) Municipal administration. Approximately 54 participants and 1,620 man-days.

(d) Other specialized areas. Approximately 50 participants and 1,500 man-days.

The 96 man months of technical assistance being provided to the Fund under this project will play a key role accomplishing this training. Technical assistance will also be provided in the area of municipal banking and administration, municipal taxation and finance, and various specialized areas.

(2) Design and Implementation of Information/Evaluation System

The effective operation of the Fund will require an information/evaluation system in order to provide the necessary data for planning, executing and evaluating its programs and activities. It is anticipated that during the first year of operation of the Fund, the necessary data collection and sub-project specific impact assessment instruments will be designed and that the system will be operational thereafter.

(3) Publications Program

In support of its Operation, Research, Technical Assistance and Training programs, the fund is expected to produce a number of publications including reports, manuals and research documents. It is anticipated that the following documents would be produced as a minimum during the disbursement period of the project.

(a) Approximately 8 operating manuals in the areas of credit, accounting, technical assistance, training, evaluation, sub-loan supervision, purchasing and sub-project identification, preparation and implementation.

(b) Approximately 11 training manuals in the areas of municipal tax assessing, tax collection, budgeting, planning, finance administration, local services and municipal productive enterprise administration, sub-project identification, preparation and implementation, municipal capital improvements programming and accounting.

(c) Approximately 5 in-depth studies relating to municipal needs in the areas of training, technical assistance, financial resources, capital projects, organization and administration.

(d) Evaluation and progress reports.

(4) Technical Assistance and Training To Rural Municipios

In order to increase the capacity of rural municipios to provide public services and manage productive enterprises, an output of 171 man-months of technical assistance in the following general areas will be required: Municipal administration, municipal tax and finance administration, sub-project preparation and implementation and other specialized areas to be determined.

The training program for municipal officials and personnel will include approximately 35 courses, 10 seminars and 5 observation trips in the following general areas:

(a) Project preparation and implementation. Approximately 600 participants and 3000 man-days.

(b) Municipal taxation and finance administration. Approximately 150 participants and 2250 man-days.

(c) Municipal administration. About 120 participants and 3600 man-days.

(d) Other specialized areas. About 30 participants and 450 man-days.

(5) Implementation of Municipal Administration and Revenue Improvement Programs

It is anticipated that approximately 60 municipios will prepare, with assistance from the Fund, administrative and revenue improvement plans during the disbursement period. It is expected that these plans will be instrumental in substantially increasing revenue collections and the fiscal capacity of rural municipios to provide and

improve rural public services and infrastructure including municipal productive enterprises.

(6) Credit Program

The implementation of the credit program should result in sub-projects with a total initial value of approximately \$7.0 million. The following is illustrative of the type of projects that may be financed: public markets, slaughterhouses, rice mills, transportation terminals, agro-industrial parks, feeder roads, rural water supply systems, artisan production centers and municipal productive enterprises. The A.I.D. Loan will finance only food and nutrition projects.

The successful implementation of these programs will be achieved if all the contributions to the project are made in a timely manner and as planned. These contributions are shown below as the project inputs:

<u>Project Inputs:</u>	<u>\$7,000,000</u>
<u>USAID</u>	<u>4,000,000</u>
1. Funds for Sub-loans	3,736,000
2. Funds for Technical Assistance	264,000
a. Advisors:	
Municipal Banking and Administration	(60,000)
Short-term	(60,000)
b. Technicians	
Municipal Administration	(48,000)
Municipal Finance and Taxation	(48,000)
Capital Projects	(48,000)
<u>GOP</u>	<u>\$1,100,000 *</u>
1. Funds for Sub-loans	1,100,000
2. Technical Personnel of Participating Agencies	- -
<u>BNP</u>	<u>1,475,000</u>
1. Funds for Sub-loans	475,000
2. Funds for Operations and Equipment	1,000,000
<u>Municipios</u>	<u>425,000</u>
Sub-Projects Counterpart Funds	425,000

* The breakdown of the Panamanian contribution is illustrative; the total of \$3 million is firm.

Part III. Project Analyses

A. Technical Analysis including Environmental Assessment.

1. Rationale

a. Economic and Political Considerations

In spite of Panama's previous high rate of growth (although significantly slowed during the past two years), a large number of those living in the rural areas have not shared in the benefits of this growth and continue to live close to or at the subsistence level.

The Panamanian Government as a matter of national policy established, as number one priority, the incorporation of the rural population into the national economy. A.I.D. along with other members of the donor community joined with the GOP to re-inforce the accomplishment of this goal through programs that would provide:

- Credit and technical assistance to the small farmer.
- Expanded agricultural marketing and infrastructure systems.
- Rural health and family planning delivery services.
- Educational opportunities relevant to the needs of the people.

Coincident with the recognition that a large segment of the rural population was outside the mainstream of economic development, the GOP also took note of the fact that in political terms as well, rural Panama had only a limited voice in its own development. The most significant attempt to modify this situation was incorporated in the Constitution of 1972 which formulated a new and revolutionary role for local government. Local government characterized primarily by the municipio was assigned the main responsibility for planning, promoting, and executing the political and socio-economic development within the area of its jurisdiction in close collaboration with the Central Government.

The mechanism chosen by the GOP to help the municipios carry out this mandate is a Municipal Development Fund to be created within the National Bank of Panama. This move represents a conscious decision on the part of the GOP that without sensitizing one national institution to the concerns of local government, and with-

out providing resources for their improvement, the neglect of the past and present would only continue.

The Municipal Development Fund is therefore assigned a role for local development which runs the gamut from the creation of municipal enterprises for improved income distribution and employment among the rural population to the improvement of municipio capacity to respond to their constituents' overall needs.

b. Concept of a Municipal Development Institute (MDI)

The conceptual choice by the GOP of an institution for reaching the municipios is based on a model that A.I.D. and certain countries of the hemisphere have adopted in recent years starting with FUNDACOMUN in Venezuela in about 1961. Basically, the MDI has two major functions: to provide sub-loans to municipios for predominantly agricultural projects that will have a positive impact on the rural population, and to make available technical assistance and training to the staffs of the municipios, including the top officials, to assure efficient administration and management of projects and generally improve the capacity of local government as a tool for development. Funding availability and technical assistance and training are regarded as key elements in a total package, one would not be feasible without the other.

The GOP is well acquainted with this approach not only with respect to Venezuela but also with similar institutions in Bolivia, Costa Rica, Guatemala, Honduras and Paraguay.

c. The Panamanian Adaptation

The MDI models in Latin America are quasi-autonomous or completely autonomous instrumentalities of the national government. For the most part, they are self-contained in that they incorporate the banking and technical assistance and training functions under one roof and also include a planning and research function to help professionalize their operations.

The adaptation made in Panama is unique. Instead of creating a separate institution, the fund will be administered by the National Bank of Panama, with popular participation in project identification and selection in accordance with the new constitutional processes. See annexed Amembassy Airgram A-140 and accompanying Embassy memorandum. As detailed in the Financial Analysis of the National Bank of Panama, the BNP already houses organizational entities that manage credit portfolios for livestock, industrial and fisheries development. These windows were established as a result of development loans from the IDB and the IBRD, and this proposed loan from A.I.D. logically adds another window for municipal development. Institutionally, the GOP is moving toward converting a

part of the BNP into a government development bank and adding that service to the bank's commercial and other activities.

Other equally sound technical reasons influenced the GOP and convinced A.I.D. that incorporating the Municipal Development Fund in the BNP made good sense.

(1) The BNP has a distinguished record in financing economic development generally and has specific experience in lending to municipios. The BNP had granted over 20 loans to municipios for markets, slaughterhouses, roads, water systems, schools, etc., and 9 loans have been made to Juntas Comunes in the last year. This exposure has given the BNP a practical orientation with respect to local project needs, municipal debt capacity, loan repayment history, and the legal and administrative issues in lending to municipios.

(2) The Manager-Designate of the Municipal Development Fund is presently the Manager of the Industrial Development Fund and thus is experienced in total BNP operations and contributed to the design of this project.

(3) The BNP has 37 branch offices as well as a number of mobile units which gives each municipio reasonable access to the services of the Bank with respect to loan applications and satisfying feasibility criteria.

(4) The BNP presently serves as the national depository of all municipio funds and in this role can facilitate collection of outstanding municipal debts, including sub-loans generated by this project.

One final point supporting the use of the Municipal Development Institute model is its endorsement by an AID-financed comparative evaluation study recently completed by Checchi and Company (August 1975) and now distributed to all Latin American Missions for comment. The study recommended an even stronger and more aggressive development role in the rural areas for this type of institution and suggested approaches to strengthen its activities on the national development scene.

2. Project Design and Cost Estimates

The Municipal Development Fund project is part of a mosaic of AID-funded development activities aimed at improving the quality of life of the rural poor, increasing local political and economic self-determination, reducing dependence on the central government, and stimulating a more balanced growth among the geographic regions of the country.

The goal of this project, as stated earlier, is to strengthen the constitutional processes which will institutionalize the participation of the municipios in providing for many of the socio-economic needs of their inhabitants in concert with national and regional development programs. To achieve this goal, the municipios will require a political commitment and resources from the national government to assist them in making investments in productive enterprises and public services and in improving municipal administration and the revenue level of local government generally.

The description of the project design and the financial base to support it is discussed in terms of each of the seven (7) components that together constitute the project design. Although they are discussed separately, they cannot be regarded as mutually exclusive. By treating them individually, it is hoped a better understanding is conveyed of the total effort. The project design components are:

- (a) overall institutional environment
- (b) organization
- (c) staffing
- (d) operations
- (e) lending
- (f) technical assistance and training
- (g) implementation

a. Overall Institutional Environment

As indicated earlier in the discussion of the Panamanian adaptation of the Municipal Development Institute model, the GOP as part of its municipal development strategy has decided to incorporate the Municipal Development Fund into the National Development Bank of Panama. This approach makes good sense for many reasons including the fact that: the BNP is already in the development banking field for livestock, industry and fisheries; the BNP has already had experience in lending to municipios; the existence of 37 bank branch offices and mobile servicing units provide a made-to-order country network for the municipios; the BNP serves as the national depository for all municipal funds; and, it is a more cost effective approach since most of the required overhead for loan servicing is already in place. In sum, the project design opts for placing the Municipal Development Fund in an existing banking institution rather than creating a separate independent organization as is the case in

all other Latin American countries where Municipal Development Institutes have been established.

b. Organizational Design

The Municipal Development Fund will be organizationally located in the newly established Municipal Development Division headed by a Division Manager who will also have responsibility for the management of the Fund. It will be one of three divisions under a Vice-President for Governmental Banking who in turn reports directly to the President of the BNP.

The strategy is to start small with all the essential functions to carry out the institution's mandate and expand the organizational entities and staffing so that by 1978, the Division will be fully staffed (see organization Charts for a better understanding of this transition). The Division starts with a staff of 17 in 1975 distributed among an Operations Section; Office for Technical Assistance to the Fund; a Department of Development (TA and training to the municipios); a Credit Department; and three advisory staffs, including an Advisory Council, Loan Committee, and an Internal Coordinating Committee. A new Department for Evaluation and Research will be added in 1978 indicating an increase in this function which starts with only one individual located in the Manager's Office in 1975. A detailed description of the various organizational elements will be found in the administrative arrangement section of this paper. By 1978, it is anticipated that a staff of 34 employees will constitute the Municipal Development Division.

This pattern of growth in dollar terms has been detailed in the Financial Analysis. This growth reflects the cautious expansion of the Division starting in 1975 with a total operating budget of about \$119,300 and almost tripling by the end of the disbursement period in 1978 to \$338,225. For the three-year period of initial disbursement, it is estimated that \$1.0 million will be required for operating costs which includes personnel services, non-personnel services and furniture and equipment.

c. Staffing

In staffing the Municipal Development Division, the BNP was guided by the following precepts: that there be a minimal, core personnel complement to satisfy the Fund's basic functions and serve as a catalytic agent for action by those in the public and private sector interested in having a positive impact on development of the municipios; that additional technical help needed above and beyond the Division's staff be recruited from other ministries or independent agencies of the GOP through an inter-ministerial agreement which makes such an arrangement binding; and, that most of the overhead requirements of the Division be satisfied by the BNP's existing overhead.

In those instances when additional human and technical resources are called for, other governmental institutions with complementary or related programs or with the technical know-how as such will be called upon to help. An Advisory Council and a Technical Coordinating Committee will be created to facilitate such inputs into the Division's functions, including its needs for technical assistance and training. The most relevant agencies for such purposes are the Controller General, IDAAN (National Water & Sewerage Agency), IRHE (National Power Agency), Ministry of Finance and Treasury, Ministry of Commerce and Industry, Ministry of Agricultural Development, the Ministry of Public Works and the Ministry of Health. It is anticipated that the Fund will cover all costs other than salaries for the use of such external personnel. With respect to satisfying the Division's overhead needs, the regular BNP operations will provide the legal services, auditing, and loan administration, making full use of its branch outreach.

The Organization and Staffing Patterns for the Division are set forth in the Administrative Arrangements section. It is estimated that the doubling of the staff from 17 in 1975 to 34 in 1978 (the end of the AID loan disbursement period) will result in a 100% increase in basic salaries from about a monthly rate of \$8,800 to \$16,750. The salaries generally are pegged to the salary classification pattern of the BNP to assure compatibility with its other operations.

d. Operations

As noted earlier, the purpose of the project is to assist the municipalities in making investments in predominantly agricultural projects and public services and in improving municipal administration and the revenue levels of local government generally for their further development. This effort is being undertaken to move the municipios toward satisfying the socio-economic and political needs of their inhabitants in coordination with national and regional development programs. To accomplish these objectives, the Municipal Development Division has been assigned two major objectives; to provide a source of loan funds to the municipios for the creation of public services and projects whose benefits will accrue to the rural population living in the particular municipio; and, to install and/or upgrade the administrative and technical capacity of the municipio to identify, design, manage projects and their own affairs generally through the provision of training and technical assistance.

Through the interaction of the Municipal Development Division (especially the staff of the Development and Credit Departments) and Municipal Council, Community Councils and other entities within the municipio or outside, a project is identified, approved by the Municipal Council and forwarded through a credit application

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to a branch of the BNP or directly to the Municipal Development Fund. The Fund provides assistance to the Alcalde to complete a formal loan request; it is then formally submitted to the Fund and the Provincial Coordinating Council for loan financing consideration by the former and a judgement from the latter (submitted to the Fund) as to whether the project has a priority within the regional development strategy.

If the project meets the basic criteria, an analysis or a formal feasibility study is undertaken by the Municipal Division Staff, by other GOP personnel, by a private contractor, or by whatever means that makes the best sense under the circumstances. Such a review will determine whether the project is feasible and the amount of technical assistance and training required to assure reasonably successful implementation and adequate future management. The report is sent to the Manager of the Municipal Development Fund, and the project is processed in accordance with funding and eligibility criteria of the BNP described in the Administrative Arrangement Section.

If the project is approved, the loan contract is signed by the Alcalde and the Manager of the Fund, and disbursements will be made in accordance with the loan document. The operational design also anticipates periodic as well as final evaluations of the project including a determination of project impact based on the availability of baseline data which will be built into the evaluation information system of the Municipal Development Division.

e. Lending Policy

Specific criteria will be incorporated in the AID-GOP agreement to insure that each project has a positive impact on the quality of life of the rural population. Included in those considerations described in the Administrative Arrangements Section are the following:

- (1) relationship of the project to plans and strategies of local, regional and national development which relate to rural municipios and market towns;
- (2) priority of the project within the scale of community needs;
- (3) relationship of project to other GOP, cooperative, and private initiatives;
- (4) capacity of the municipio to manage the project or the potential for adequately upgrading such capacity through technical assistance and training.

Lending Strategy

The GOP regional development strategy calls for the concentration of its development efforts and resources in the Central and Western regions of the country in which about 70% of the rural population is located. In these regions the GOP has identified several potential growth and service centers. Within the strategy these centers have been selected for priority developmental attention because of the wide impact they can have on their hinterlands. The GOP intends to place particular emphasis on the development of these centers by emphasizing programs and projects which effectively link them economically and socially with the surrounding agricultural areas. This is to be accomplished by emphasizing agricultural production and the necessary related infrastructure and social services. The strategy is based on the belief that a given level of investment for these purposes concentrated in the more densely populated rural areas will have a greater impact on more rural poor than by dispersing an equal investment throughout the entire country.

The project will support this strategy by strengthening the administrative and financial capabilities of the municipios involved in these programs and by providing financial resources for food, rural development and nutrition projects. Those sub-projects will, as their ultimate objective, contribute towards increasing the productivity and income of the rural poor. Thus priority will be given to those sub-projects which:

1. stimulate labor-intensive enterprises
2. improve marketing facilities and systems
3. expand local or small scale rural infrastructure and utilities such as farm-to-market roads, land improvement, energy and storage facilities
4. support systems to provide services and supplies needed by farmers, such as water, fertilizer, and improved seed.

An illustrative sub-project list follows:

1. wholesale and retail markets
2. slaughterhouses
3. feeder road construction and maintenance
4. bridge and culvert construction and maintenance
5. agro-industries
6. artisan and cottage industries
7. water supplies
8. transportation facilities
9. electric power generation and distribution

The rural municipios have indicated an interest in other facilities. The GOP is therefore contributing over and above the \$3 million of project counterpart an additional \$1.5 million so that the Fund may have flexibility to respond to requests, deemed priority by the rural municipios and the Provincial Coordinating Councils, for financing for other types of sub-projects.

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Provisions for credit terms are treated in the Administrative Arrangements Section. The terms are softer than those of the commercial banking sector and are flexible enough to take into account such factors as whether the project is entirely self-financing, repayment capacity of the municipality, the type and amount of local contribution and the Fund's credit resources.

The cost estimates for lending availability have been detailed in the financial analysis section. The amounts planned for sub-project financing during the first three years of operation of the Fund total \$5.7 million with \$3.7 million from the AID loan and \$2 million from Panama.

f. Technical Assistance and Training Design

The potential for success of the project is obviously increased by improving the capacity of all institutional entities involved in it. For this reason the design of the project puts a great deal of emphasis on technical assistance and training. The targets for such inputs are the BNP at the national level and the municipios at the local level.

In view of the fact that the financing of public services at the local level and evaluating municipio projects in terms of developmental impact represents new activities for the BNP, the project provides a technical assistance team for the staff of the

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Municipal Development Division that will improve its capabilities in such key areas as municipal banking administration, municipal taxation and finance, project preparation and implementation and other relevant specialized subject matter. Complementing this technical assistance will be a Fund staff training program consisting of courses, seminars, and observation trips out of the country to study the operations of similar institutions in Latin America.

At the municipio level, technical assistance will be provided to increase the capacity of the rural municipios to provide and effectively administer rural public services and projects, including productive enterprises that meet the lending criteria. General areas of concern include municipal administration; municipal tax and finance administration; project design, preparation and management; and management of public enterprises. To reinforce this technical assistance, a training program for local government personnel is contemplated through courses, seminars and observation trips in subject matter areas which are the same or similar to those in which technical assistance will be given.

The detailed Project Description Section cites the planned inputs for accomplishing the technical assistance goals of the project expressed in man months. With respect to training, the anticipated number of courses, seminars, observation trips, participants, and man-days invested are enumerated. The total budget for technical assistance and training amounts to an estimated \$439,360 with almost three-fourths or \$308,375 devoted to technical assistance and \$130,985 for training. It should be pointed out that these costs understate to a considerable degree the actual technical assistance and training that will be going on under the project. Beyond these costs to the Municipal Development Fund will be the contribution of technical personnel from other governmental ministries (e.g., Commerce, Planning, Finance) and independent agencies (e.g., IDAAN, IRHE) that will be called upon to participate in project planning and implementation.

g. Implementation Design

As distinguished from the Operational Design process which deals with the evolution of a project to its approval stage, implementation design is concerned with the execution of the project.

It is anticipated that each project will be technically supervised by the Fund staff, through an agreement with an appropriate agency of the GOP, or by a contract with a consulting engineer. Procurement of consulting services or equipment and materials costing less than \$5,000 will require competitive bidding from three or more reputable sources. Services and goods over \$5,000 will be procured through formally advertised competitive bidding in accordance with the Panamanian Fiscal Code.

To expedite the procurement process, sources will be pre-qualified. Consulting, engineering and construction services will be implemented by assignment to a pre-qualified entity for contracts costing less than \$25,000. Similar services costing over \$25,000 will be procured by advertising for proposals from among the pre-qualified entities.

Construction firms will be required to post a 5% bid bond, a 20% performance bond, and a 15% payment bond for projects over \$50,000. Retention of 10% will be required.

Disbursements will be made against normal documentation, and separate accounts will be maintained by the municipios to account for project funds.

3. Environmental Assessment

The activities of the proposed project will have no negative long range effects on the Panamanian environment. On the contrary, the projects should have a salutary effect, especially with respect to projects involving sanitary sewerage facilities, slaughterhouses, potable water, and markets.

Nevertheless, the Loan Agreement will make environmental considerations part of the criteria used by the Municipal Development Division. Sub-lending criteria will ensure that when the size and type of project merit it, the BNP approval process will take into consideration the environmental impact of such projects.

4. Application of Section 611 - Completion of Plans and Cost Estimates

As pointed out in this discussion involving the technical analysis of the project, the social, political and economic climate of the country provide an environment conducive to the establishment and operation of an organization that brings concentrated attention to the rural areas through the constitutional process of local governmental participation in determining developmental priorities. It should be pointed out that this project alone will not and cannot make the impact on rural Panama that is required, but this project should increase the effectiveness of other efforts of the Government of Panama in health, agriculture, nutrition and cooperatives by raising the quality of the participation in planning of the rural representatives.

Project design and cost estimates have been formulated through a methodical analysis of the seven (7) components of the project design which in our view individually and jointly meet the test of soundness and logic.

Since the project will be executed through an intermediate credit mechanism, namely, the National Bank of Panama, the substantive technical and financial analysis has been focussed on the Fund and Bank, rather than the individual municipios and sub-projects.

Annex I of this Project Paper contains the USAID Director's Certification for this loan project in conformity with Section 611 (e) of the Foreign Assistance Act of 1961, as amended.

The sub-lending criteria of the Fund have been analyzed and found adequate to assure the technical financial, and administrative requirements of sub-projects.

The required legislation establishing the inter-agency coordination committee has been drafted and is expected to be approved prior to loan signing. The establishment of the Municipal Development Fund does not require any special legislation, merely approval by the Board of Directors of the National Bank of Panama.

B. Financial Analysis and Plan

The analysis that follows looks at the entire operations of the Fund which are greater than the Project because the Fund is expected to finance, with Panamanian counterpart contributions over and above the Project counterpart, certain facilities in the rural municipios that are deemed by the representatives to be priority and which meet the Fund's lending criteria but which may not directly develop the rural market towns' capabilities of incorporating the rural poor into the market economy or of providing essential social services. Nonetheless, these activities affect the Fund's financial operations and thus should be assessed. The amount of the additional contribution above the Project counterpart is \$1.5 million to which should be added the up to \$3 million contribution to maintain the level of Fund lending after disbursement of the Loan and the counterpart.

1. Analysis of Municipal Debt Service Capacity

(a) Credit Demand

It has not been possible to determine the precise needs of the municipios. A close estimate of the aggregate demand for credit is not yet available. One of the important activities to be implemented by this program is to establish the quantitative needs and priorities of the municipios and to maintain this information up to date at all times. Indications are, however, that the demand far exceeds the resources that will be made available under this program.

To illustrate, requests made in 1974 by the municipios to the Ministry of Planning for financial resources for projects to be implemented by the municipios and which for the most part satisfied basically local needs amounted to almost \$12.0 million. While not all of these projects could be considered as meeting the eligibility criteria for financing under this program, these request suggest a significant demand. The majority of these projects have not received any financing. The 1975 investment budget of the GOP only included about \$1.2 million in projects to be executed by the municipios or about 10% of the demand. These project requests covered a wide range of activities including education and health facilities, basic infrastructure and productive enterprises. Many of them are only ideas, while others have been proven technically and economically feasible. The potential effective demand for financial resources for development projects which would be eligible for consideration by the Fund, in 1974 amounted to \$4.6 million. Only one project for \$12,000 was requested in 1974 by the municipio of Panama, and none from either the municipio of Colon or San Miguelito. If projects amounting to only one-third of the 1974 apparently eligible requests will be financed during the first year of the Fund operations, that would exceed the available funding of \$1.3 million planned. After the first year of operations, considerably more information should be available concerning municipal project needs as a result of the baseline survey/information system which will be implemented as part of this program.

(b) Municipal Loan Experiences

The National Bank of Panama has been making loans to the municipios since 1963. As of April 1975, these have amounted to 20 loans valued at \$1.3 million. Excluding the municipio of Panama, which received a loan for \$500,000 and the municipios of San Miguelito and Santiago with \$100,000 loans each, the average amount of these loans was \$29,000, ranging from \$2,000 to \$85,000. The loans were used primarily for equipment purchases in construction activities for the improvement of social infrastructure. These included public markets, slaughterhouses, schools, cemeteries, potable water supply, and refuse disposal. The loans were for short and medium term, and the interest rates varied from 6% to 13%. In each case the loan pro-

ceeds were used for the predetermined purposes, and the repayment record has been satisfactory.

It should be noted that the financial resources available by the BNP were on entirely commercial conditions, were made in the absence of any special promotional or development efforts, and were made with no attempt to provide technical assistance or training.

Very recently, the BNP has been establishing financial relationships with the juntas comunales as well. As of April 1975, deposits by the juntas comunales in the BNP amounted to \$279,000. The BNP has made 9 loans to juntas comunales with a total value of \$62,200, ranging from \$2,000 to \$20,000. The loans have been used for agricultural, commercial and industrial purposes with repayment periods ranging from one to three years. Interest rates generally have been 9%. Loans to the juntas comunales have required a greater supervisory role by the BNP due to deficiencies in administration and accounting procedures in the preparation and implementation of projects. The BNP has been providing some technical assistance to the juntas comunales through its development division.

In addition to the BNP, the Agricultural Development Bank (BDA), has also made loans to the juntas comunales. Since 1973 the BDA has made 49 loans totaling \$960,560 exclusively for agricultural production. Products financed include rice, beans, vegetables and livestock.

(c) Debt Service Capacity

Based on the analysis detailed below the capacity of the rural municipios to service the increased level of indebtedness which will result from the contemplated sub-lending program will not constitute an important limiting factor in the municipios' ability to undertake new sub-projects.

It is estimated that by the end of 1990 outstanding debt of rural municipios, channeled through the Municipal Development Program, will total almost \$16.0 million. The service of this debt would require yearly financial resources ranging from \$39,000 at the beginning of the program to almost \$3.0 million by 1990. (See Table 4, Financial Analysis).

An analysis of the financial situation including additional debt service capacity of rural municipios has revealed that they will have ample resources to finance the level of sub-lending contemplated. The basic reasons and underlying assumptions are as follows:

(1) Revenues: The current revenues of rural municipios have grown at an average annual rate of 20% during the past four years. Part of this rate of growth is the result of reform measures adopted in 1972 and 1973 already referred to in the section on Major Constraints. In projecting revenues it was assumed that this item will continue to grow at a relatively high level at least through 1980 for the following reasons:

(i) the effects of the reform measures will continue to measurably impact on the level of collections at least through 1976; (ii) the T.A. and training programs in taxation and financial management to be provided should result in significant increased collections. Therefore revenues are projected to increase at an annual rate of 20% through 1980; at 15% per annum during the 1981-85 period; and at the annual rate of 10% during the 1986-1990 period.

(2) Current Expenditures: Historically current expenditures have averaged 77.0% of current revenues with an average annual growth rate of 13.9%. In the projections, current expenditures are computed at 80% of current revenues during the 1975-80 period and 75% thereafter through 1990. This results in an average growth rate of 15.8%.

(3) Current Savings: Current savings during the past four years (1970-74) have averaged 22.9% of current revenues and have been increased at an average annual rate of 42.0%. During the 1975-1990 period the current saving average will increase to about 24%. In the meantime the annual rate of growth will decline to about 14%. This results from projecting revenues and expenditures at the rates stated above. The resulting ratio and growth rate do not seem to be unreasonable.

(4) Service of Existing Debt: The service of existing rural municipio public debt was included in the analysis and projected out to 1979. By that time all existing debt should be repaid according to the terms of these loans.

(5) Available resources for Investment and Additional Debt Servicing: The resources available for investment and additional debt servicing is the difference between current savings and the amount required to service the existing outstanding debt. At this point there are trade-offs to be considered. On one extreme, the municipios could theoretically opt to forego financing of their investments with credit and limit the level of capital expenditures to the resources available after covering their current expenditures and servicing the existing debt. The other extreme would be to leverage the available resources by debt financing all of their investments. However, the interest of this project is not to substitute existing levels of investment but to be additive. Therefore in determining the additional debt service capacity of the municipios, existing levels of capital expenditures were taken into account.

(6) Capital Expenditures: During the 1970-74 period, capital expenditures increased at an average annual rate of 23%; averaged 77.5% of the available resources for investment and additional debt servicing; and 14.2% of revenues. For the 1975-1990 period capital expenditures are projected at 75% of available resources which results in a growth rate of 17% annually and an average ratio of 18.1% of current revenues.

Based on the above assumptions, revenues are expected to triple by 1980 to about \$20.4 million and to increase by almost ten times to \$66.1 million by 1990. The annual rate of growth will be increasing at a decreasing rate but will average 15.2% per year during the 1975-1990 period. Current expenditure on the other hand, with a growth rate averaging 15.8%, slightly higher than that of revenues during the same period, will remain nevertheless on the average, at about 76% of current revenues. The resulting current savings is expected to grow by almost 14% per year to about \$16.5 million by 1990. Current saving should be exactly equal to available resources for investment and debt servicing beginning in 1980. Assuming that the investment to be financed from the municipalities' own resources average 75% of their current savings less their existing debt service, the additional debt service capacity resulting should comfortably exceed the resources required for servicing the sub-loans under this project. Note that the additional debt service capacity increases from \$480.6 thousand in 1976 to \$4.1 million in 1990. The resources required for financing the sub-loans increases from \$39.0 thousand to \$2.9 million during the same period. In each year during this period debt service capacity exceeds the resources required for servicing the sub-loans.

**Comparison Between Historical and Projected
Growth Rates and Ratios Used in
Determining the Debt Service Capacity of Rural Municipios**

	<u>Historical</u> (1970-74)	<u>Projections</u>	
A. Current Revenues		1975-1980:	20%
1. Average annual growth rate	19.8%	1981-1985:	15%
		1986-1990:	10%
		1975-1990:	15.2%
B. Current Expenditures			
1. Average annual growth rate	13.9%	1975-1990:	15.8%
		1975-1980:	80%
2. As % of revenues	77.0%	1981-1990:	75%
		1975-1990:	75.8%
C. Current Savings			
1. Average annual growth rate	42.0%	1975-1990:	13.7%
2. As % of revenues	22.9%	1975-1990:	24.2%
D. Available for Investment and additional Debt Financing			
1. Average annual growth rate	31.0%	1975-1990:	16.9%
2. As % of revenues	18.3%	1975-1990:	24.2%
E. Capital Expenditures			
1. Average annual growth rate	23.0%	1975-1990:	17.0%
2. As % of available resources for investment and addi- tional debt servicing	77.5%	1975-1990:	75.0%
3. As % of revenues	14.2%	1975-1990:	18.1%

PROJECTION OF DEBT SERVICE CAPACITY OF THE RURAL MUNICIPIOS IN PANAMA

(\$000)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Current Revenues	3,318	4,000	4,551	6,003	6,839	8,207	9,848	11,818	14,181	17,017	20,420
Less: Current Expenditures	2,796	3,134	3,607	4,792	4,706	6,565	7,878	9,454	11,345	13,614	16,336
Current Savings	523	861	944	1,211	2,133	1,641	1,970	2,364	2,836	3,403	4,084
Less: Service of Existing Debt	55	129	114	111	746	54	47	22	7	5	-
Available resources for capital expenditures and additional debt servicing	468	733	830	1,100	1,387	1,587	1,922	2,342	2,829	3,398	4,084
Capital Expenditures	434	562	745	759	1,001	1,191	1,442	1,756	2,122	2,549	3,063
Additional Debt Service Capacity	34	170	85	341	386	397	481	585	707	850	1,021
Additional resources required for debt servicing under this program	-	-	-	-	-	-	39	140	235	487	957

Note: Figures for 1970-74 are historical data; 1975-1990 are projected according to the following criteria:

- (1) Current revenues are projected to increase at the rate of 20% per annum through 1980; 15% during the 1981-85 period and 10% for 1986-1990.
- (2) Current expenditures are calculated at 80% of current revenues through 1980 and 75% during the 1981-90 period.
- (3) Capital expenditures computed at the rate of 75% of the availability for investment and additional debt service during the 1975-1990 period.

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	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Current Revenues	23,460	27,005	31,057	35,715	41,073	45,180	49,698	54,668	60,135	66,148
Less: Current Expenditures	17,595	20,254	23,293	26,786	30,805	33,835	37,274	41,001	45,101	49,611
Current Savings	5,865	6,751	7,764	8,929	10,268	11,295	12,425	13,667	15,034	16,537
Less: Service of Existing Debt	-	-	-	-	-	-	-	-	-	-
Available resources for capital expenditures and additional debt servicing	5,865	6,751	7,764	8,929	10,268	11,295	12,425	13,667	15,034	16,537
Capital Expenditures	4,399	5,063	5,823	6,697	7,701	8,471	9,318	10,250	11,275	12,403
Additional Debt Service Capacity	1,466	1,688	1,941	2,232	2,567	2,824	3,106	3,417	3,758	4,134
Additional resources required for debt servicing under this program	1,321	1,591	1,864	2,146	2,441	2,640	2,631	2,568	2,689	2,896

2. Financial Analysis of the BNP

The National Bank of Panama, established in 1904, had total assets of \$281,895,000 at the end of 1974, up from \$219,800,000 at the end of 1973, the figure reported in the IRR. Its statements confirm its financial soundness and ability to manage the project. Furthermore, repayment of the AID loan will not be charged against the Bank's operations since that responsibility will be undertaken by the GOP.

Two aspects of the Bank's operation are of concern. First, is the Bank managed in such a way as to provide reasonable assurance of sound Fund Management. Second, will the obligation assumed by the Bank to provide all of the new Department's operating funds from the earnings of its other Departments put a financial strain on the Bank, thereby hindering its rate of earnings and restraining the expected growth of the Fund? The discussion that follows addresses these questions.

The Bank's historical financial record provides a good indicator of the quality of its management. As can be seen in Table 8, the Bank has been growing steadily in terms of loans, deposits, and capital & reserves in a well balanced manner. Net income, see Table 9, although low by commercial bank standards, has been relatively stable and adequate to provide a steady increment to the capital account in the form of retained earnings. The Bank's experience of setting realistic annual operating budgets and adhering to them has been good.

The ten-year projections of income and expenses contained in Table 10 reveals a steady rise in net income from 1975 on, which will be sufficient to provide the additional operating funds required for the new Municipal Development Department, as scheduled, and still produce a satisfactory level of retained earnings to maintain the growth rate of the capital account. The Fund's operating costs are not included in the projected expenditures of the BNP in the above mentioned table.

3. Financial Analysis of the Fund

a. Financial Rate of Return/Viability

The Project is jointly funded by the GOP, BNP, and AID through 1978 as already indicated. In order to maintain the Fund's growth following the disbursement of the joint Project funds, the GOP has agreed to provide additional capital adequate to maintain an annual sub-loan rate of \$1.5 million which amounts to \$3 million spread over the 1979-1982 period, and are so indicated in Table No. 4.

Net operating income will be negative until 1979, due to heavy start-up expenses and low interest income. In 1980, a profit of \$143 thousand is projected and a favorable increase thereafter is anticipated as indicated in Table No. 2. The BNP has agreed to contribute

funds to cover operating costs starting in 1975 at \$119,000 and reaching \$438,000 by 1984.

If we measure a rate of return based on net income as a percentage of capital, we will have a negative return through 1979, a low positive rate of 1.7% in 1980, and rising slowly to 2.5% by 1984. See Tables 1 and 2. We consider the improvement in the Profit (Loss) projection to be an important indicator of competent management and BNP support for the Fund. As net income is realized, it will be capitalized at the completion of each year and made available for sub-loan lending.

It should be noted that no liabilities are projected for the Fund, see Table No. 1, since the AID loan and counterpart funds to cover technical assistance and operating costs are donated and appear in the capital reserve account. This will put the Fund in an excellent position to obtain long-term debt financing in the future to expand its operations or to incur contingent liabilities for guaranties it might provide for loans obtained directly by municipios from other lenders.

A unique feature of this Project design discussed earlier is reflected in the financial projections. The Fund management intends to operate with a minimum of direct-hire staff and rely heavily on non-reimbursed technical inputs from participating agencies of the government. The financial significance of this policy is great and can be seen by the very low ratio of personnel costs as a percentage of the loan portfolio. See Tables 1 and 5. In 1976, it is an unusually high percentage because lending has just begun, falls sharply to 4.6% in 1977 and stays at about 3.0% during the 1980s.

b. Recurrent Budget

The operating costs of the Municipal Development Fund will be covered in their entirety by the BNP, and AID will cover required technical assistance. The BNP as an agent of the GOP has agreed to provide its contributions in order to help capitalize the new fund. Therefore, although determination of the operating budget size may rest with the BNP management, availability of funds to cover the budgeted program will be assured.

Projections of operating costs are shown in Table 5. They include costs of personnel, non-personnel services and equipment for all of the divisions or Programs within the Division. The projections were prepared by the AID/BNP task force and are considered adequate and realistic. The BNP has agreed to cover the amounts projected and, as stated above, will provide whatever level of operating funds are required to carry out each year's program. A modest inflationary factor has been included in the projections.

The BNP will provide approximately \$1,000,000 during the

three-year projected period to cover projected operating costs, excluding costs of AID loan-funded technical advisors. Of the total, approximately 67% represents personnel costs, which is not out of proportion for this type of operation. In other words, the operating cost items that enable the technicians to do their jobs, such as per diem, gasoline, vehicle maintenance, office supplies, insurance, etc., appear to be adequately provided for.

c. Financial Plan/Budget

The total level of Fund operations in the loan disbursement period is estimated to be \$8.5 million, financed as indicated below.

The proposed financial plan is as follows in thousands of dollars:

	<u>Total</u>	<u>%</u>
AID	4,000	47.0
Banco Nacional	1,500	18.0
GOP	2,000	23.0
Municipios	<u>1,000</u>	<u>12.0</u>
	<u>8,500</u>	<u>100.0</u>

Of the total \$3.5 million GOP/BNP input, \$2.5 million will be used for sub-lending to the municipios and \$1.0 million will be used to pay for training and operating costs of the Gerencia de Fomento Municipal (Gerencia). The \$1.0 million municipio input will be the participation of the municipios in projects within their respective areas. This participation will be established on a project-by-project basis during the sub-loan feasibility review by the Gerencia. The AID loan will provide \$3.7 million in sub-loan funds and \$264,000 in technical assistance. Shown below is a breakdown of the various Project elements.

The project will finance activities specifically designed to increase the productivity and income of the rural poor through such means as stimulation of small, labor-intensive enterprises in rural towns; improvement of marketing facilities and systems; expansion of local or small-scale rural infrastructure and utilities such as farm-to-market roads, land improvement, energy and storage facilities; and creation and strengthening of systems to provide other services and supplies needed by farmers, such as extension, research, training, fertilizer, water and improved seed, in ways which assure access to them by small farmers. The Panamanian counterpart contribution to these same sub-loans will be \$3 million. The additional GOP contribution of \$1.5 million will permit the Fund to respond to requests, deemed priority by the rural Municipios and the Provincial Coordinating Councils, for financing other types of projects.

<u>Fund</u>	<u>ELEMENTS</u>	<u>Total</u>	<u>MUN</u>	<u>AID</u>	<u>GOP</u>	<u>BNP</u>
A.	<u>Sub-loans</u>	<u>\$7,236</u>	<u>1,000</u>	<u>3,736</u>	<u>2,000</u>	<u>500</u>
B.	<u>Administration</u>	<u>293</u>				<u>293</u>
	Fund Management	161				161
	Legal Advisor	38				38
	Evaluation and Research	76				76
	Training	18				18
C.	<u>Development Program</u> (Technical Assistance and Training to Municipios)	<u>319</u>				<u>319</u>
	Dept. of Development	98				98
	Technical Assistance	108				108
	Training	113				113
D.	<u>Credit Program</u>	<u>221</u>				<u>221</u>
	Dept. of Credit	81				81
	Loan Branch	85				85
	Loan Supervision	55				55
E.	<u>Operation Program</u>	<u>101</u>				<u>101</u>
F.	<u>Technical Assistance to the Fund</u>	<u>264</u>		<u>264</u>		
G.	<u>Furniture, Fixtures & Equip.</u>	<u>66</u>				<u>66</u>
	TOTAL	<u><u>\$8,500</u></u>	<u><u>1,000</u></u>	<u><u>4,000</u></u>	<u><u>2,000</u></u>	<u><u>1,500</u></u>

The estimated disbursement schedule for each source of funds is set forth below in thousands of dollars.

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
AID	48	1127	2089	736
Banco Nacional	119	268	278	835
GOP		324	894	782
Municipios	—	<u>322</u>	<u>400</u>	<u>278</u>
	<u>167</u>	<u>2041</u>	<u>3661</u>	<u>2631</u>

d. Summary Opinion

In conclusion, the operation of the Municipal Development Fund, from the financial point of view, presents the following results:

(1) The rate of return on the Fund's capital reaches, in the final years of the projection period, an average level of 2.5%, per year. The modest level is characteristic of development oriented credit institutions.

(2) The Fund will be able to add to its lending capital from internal earnings and additional grants from the GOP after the disbursement period. Although this will not increase greatly its lending capacity, it will represent sound management and financial viability that will help to attract additional capital from other sources.

(3) The Fund will work initially without liabilities, since the government will assume the repayment of the A.I.D. loan. Therefore, the institution will be able to contract medium and long-term loans from local or foreign sources to expand its lending program as deemed necessary.

(4) The Cash Flow projections, as well as the income statement, indicate that the Fund will have sufficient operating capital to carry out its program as planned.

TABLE No. 1

FONDO DE DESARROLLO MUNICIPAL
 Projected Condensed Balance Sheet (\$000)
 As of December 31, _____

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
ASSETS										
Cash and Cash Items	--	39	140	235	487	957	1321	1591	1864	2146
Portfolio	--	1324	4257	6415	7780	8836	9633	10221	10672	11150
Fixed Assets	41	58	61	66	66	75	91	111	111	113
Less: Accrued Depreciation	--	<u>6</u>	<u>14</u>	<u>22</u>	<u>31</u>	<u>40</u>	<u>50</u>	<u>60</u>	<u>70</u>	<u>82</u>
Total Assets	<u>41</u>	<u>1415</u>	<u>4444</u>	<u>6694</u>	<u>8302</u>	<u>9828</u>	<u>10995</u>	<u>11863</u>	<u>12577</u>	<u>13327</u>
LIABILITIES	--	--	--	--	--	--	--	--	--	--
CAPITAL	<u>41</u>	<u>1415</u>	<u>4444</u>	<u>6694</u>	<u>8302</u>	<u>9828</u>	<u>10995</u>	<u>11863</u>	<u>12577</u>	<u>13327</u>

Notes

1. No liabilities projected; however, there may be at a given time minor amounts, i.e., accounts and salaries payable.
2. The AID loan will be repaid by the GOP.
3. The GOP, AID, and BNP contributions are treated as capital contributions.

TABLE No. 2

FONDO DE DESARROLLO MUNICIPAL
 Projected Income Statement
 For the Year Ending Dec. 31 ____
 (000)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Income										
Commissions	-	13	29	22	15	15	15	15	16	18
Interest On Subloans	-	26	111	213	337	498	603	664	708	742
Total Income	-	39	140	235	352	513	618	679	724	760
Operating Expenses ^{1/}										
Credit Department	32	96	112	147	153	161	168	176	184	193
Administration Department	21	61	61	67	70	73	77	81	85	89
Technical Assistance-Fund	53	139	103	11	12	12	13	13	14	15
Technical Assistance - Municipios	20	82	88	105	110	115	121	127	133	139
Depreciation		6	8	8	9	9	10	10	11	11
Total Operating Expenses	126	384	372	338	354	370	389	407	427	447
Net Income or (Loss)	(126)	(345)	(232)	(103)	(2)	143	229	272	297	313

Note: No bad loans or reserve provision

^{1/} See Tables 6 and 7 for detailed expenditures

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TABLE No. 3

FONDO DE DESARROLLO MUNICIPAL
Cash Flow Statement
For the Year Ending Dec. 31 ____
(000)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Cash Available at Beginning of Year	-	-	39	140	235	487	957	1321	1591	1864
Source of Cash										
Commissions <u>1/</u> Subloan Interest receipts		13 26	29 111	22 213	15 337	15 498	15 603	15 664	16 708	18 742
Capital Contributions										
GOP		324	894	782	1265	1013	543	179		
AID	48	1127	2089	736						
BNP	119	268	278	835	345	370	395	417	416	438
Subloan Principal Repayments					135	444	703	912	1140	1386
Total Sources	167	1758	3440	2728	2332	2827	3216	3508	3871	4448
Cash Disbursements										
Assets <u>2/</u> Subloans Disbursed	41	17 1324	3 2933	5 2158	- 1500	9 1500	16 1500	20 1500	- 1591	2 1864
Operating Expenses										
Credit Department <u>3/</u>	32	96	112	147	153	161	168	176	184	193
Administrative Department <u>4/</u>	21	61	61	67	70	73	77	81	85	89
Technical Assistance - Fund	53	139	103	11	12	12	13	13	14	15
Technical Assistance - Municipios	20	82	88	105	110	115	121	127	133	139
Total Disbursements	167	1719	3300	2493	1845	1870	1895	1917	2007	2302
Cash Available End of Year	-0-	39	140	235	487	957	1321	1591	1864	2146

1/ 1% Charge on Face Value of Each Subloan
2/ Vehicles, Furniture and Equipment
3/ Feasibility Studies and Loan Supervision
4/ Fund Manager, Legal Advisor, Evaluation, and Other Admin. Costs.

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TABLE No. 4
Page 1 of 2FONDO DE DESARROLLO MUNICIPAL
Projected Loan Portfolio (000)
For the Year Ending Dec. 31, 19__

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>New Loans During Indicated Years</u>										
Contributions										
GOP	324	894	782	1265	1013	543	179	-	-	-
AID	1000	2000	736							
BNP	-	-	500							
Funds Generated		39	140	235	487	957	1321	1591	1864	2146
Total New Loans	1324	2933	2158	1500	1500	1500	1500	1591	1864	2146
<u>Total Loan Portfolio - End of Year</u>										
Balance	-	1324	4257	6415	7780	8836	9633	10221	10672	11150
Add: New Loans	1324	2933	2158	1500	1500	1500	1500	1591	1864	2146
Less: Collection of Principal	-	-	-	135	444	703	912	1140	1386	1652
Total End of Year Portfolio	1324	4257	6415	7780	8836	9633	10221	10672	11150	11644
<u>Funds Generated</u>										
Commissions	13	29	22	15	15	15	15	16	18	22
Interest	26	111	213	337	498	603	664	708	742	767
Collection of Principal	-	-	-	135	444	703	912	1140	1386	1652
Total Funds Generated	39	140	235	487	957	1321	1591	1864	2146	2441

Assumptions:

1. Loans will be for an average of 10 years, 2-1/2 year principal grace period.
2. Interest at 4% during grace period and 8% thereafter.
3. One time charge of 1% as commission fee.
4. No bad loans.

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TABLE No. 4
Page 2 of 2

FONDO DE DESARROLLO MUNICIPAL
Projected Loan Portfolio (\$000)
For the Year Ending Dec. 31, 19__

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
<u>New Loans During Indicated Years:</u>						
Contributions						
GOP						
AID						
BNP						
Funds Generated	2441	2640	2631	2568	2689	2896
Total New Loans	2441	2640	2631	2568	2689	2896
<u>Total Loan Portfolio - End of Year:</u>						
Balance	11644	12255	13105	14058	14898	15727
Add: New Loans	2441	2640	2631	2568	2689	2896
Less: Collection of Principal	1830	1790	1678	1728	1860	2008
End of Year Balance	12255	13105	14058	14898	15727	16615
<u>Funds Generated:</u>						
Commissions	25	27	26	26	27	29
Interest	785	814	864	935	1009	1073
Collection of Principal	1830	1790	1678	1728	1860	2008
Total Funds Generated	2640	2631	2568	2689	2896	3110

TABLE No. 5

FONDO DE DESARROLLO MUNICIPAL
Projections of Operating Costs
For the Year Ending Dec. 31, 19__
(\$00)

Banco Nacional	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>Current Expenditures</u>										
Personnel Services	51,510	179,035	196,800	248,315	260,730	273,765	287,455	301,830	316,920	332,765
Non-Personnel Services	26,660	71,600	77,930	81,495	84,755	88,145	91,670	95,340	99,155	103,125
Sub-Total	<u>78,170</u>	<u>250,635</u>	<u>274,730</u>	<u>329,810</u>	<u>345,485</u>	<u>361,910</u>	<u>379,125</u>	<u>397,170</u>	<u>416,075</u>	<u>435,890</u>
<u>Capital Expenditures</u>										
Vehicles, Furniture & Fixtures	41,145	17,425	2,670	5,415	490	8,500	16,000	20,000	---	2,350
Total	<u>119,315</u>	<u>268,060</u>	<u>277,400</u>	<u>335,225</u>	<u>345,975</u>	<u>370,410</u>	<u>395,125</u>	<u>417,170</u>	<u>416,075</u>	<u>438,240</u>
<u>AID - Loan</u>										
Technical Assistance to the Fund	<u>48,000</u>	<u>127,000</u>	<u>89,000</u>	---	---	---	---	---	---	---
Grand Total	<u>167,315</u>	<u>395,060</u>	<u>366,400</u>	<u>335,225</u>	<u>345,975</u>	<u>370,410</u>	<u>395,125</u>	<u>417,170</u>	<u>416,075</u>	<u>438,240</u>

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FONDO DE DESARROLLO MUNICIPAL

Projected Operating Cost

Loan Disbursement Period 1975-1978
(\$00)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
1. PERSONNEL SERVICES				
Direct Hire Personnel	43,000	142,500	157,500	201,000
Temporary Hire Personnel	--	9,010	9,010	9,010
Bonus	3,605	11,875	13,125	16,750
Representation Allowance	500	1,200	1,200	1,200
Social Security-Employer Contribution	3,785	12,490	13,800	17,600
Education Insurance	555	1,800	1,985	2,535
Professional Risk Insurance	65	160	180	220
	<u>51,510</u>	<u>179,035</u>	<u>196,800</u>	<u>248,315</u>
2. NON-PERSONNEL SERVICES				
Per Diem	2,300	10,480	11,280	13,140
Training	6,600	3,700	3,700	3,700
Gas & Oil	1,500	5,880	5,880	6,000
Repairs & Maintenance - Vehicles	750	1,800	2,160	2,880
Uniforms	290	65	40	120
Office Supplies	2,175	9,130	10,670	13,050
Printing & Reproduction	3,500	9,000	10,000	8,000
Depreciation - Vehicles	--	4,525	7,275	7,275
Depreciation - Furnitures	--	995	1,165	1,300
Repair & Maintenance - Equipment	--	815	930	1,040
Insurance	--	300	300	300
Insurance - Vehicles	--	1,200	1,200	1,200
Cleaning Supplies	625	1,500	1,500	1,500
Communications & Utilities	350	900	900	900
Postage	250	360	360	360
Rent	7,500	18,000	18,000	18,000
Miscellaneous	820	2,950	2,570	2,730
	<u>26,660</u>	<u>71,600</u>	<u>77,930</u>	<u>81,495</u>
3. TECHNICAL ASSISTANCE (Consultants)	<u>48,000</u>	<u>127,000</u>	<u>89,000</u>	<u>-</u>
Total Operating Costs	<u>126,170</u>	<u>377,635</u>	<u>363,730</u>	<u>329,810</u>

Table No. 7

FONDO DE DESARROLLO MUNICIPAL
 PROJECTED COSTS OF OPERATION BY PROGRAMS AND SUB-PROGRAMS
 FOR YEARS 1975 - 1978
 (\$00)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Total Program</u>
A. <u>Administration Program</u>	<u>38,590</u>	<u>72,515</u>	<u>87,110</u>	<u>95,015</u>	<u>293,230</u>
<u>Sub-Programs</u>					
Funds Management	25,900	45,200	44,185	46,025	161,310
Legal Consultation	-	10,580	10,380	16,945	37,905
Evaluation & Research	6,090	13,035	28,845	28,345	76,315
Training	6,600	3,700	3,700	3,700	17,700
B. <u>Development Program</u>	<u>33,680</u>	<u>89,860</u>	<u>88,910</u>	<u>106,460</u>	<u>318,910</u>
<u>Sub-Programs</u>					
Development Directorate	18,495	26,000	26,095	27,635	98,225
Technical Assistance to the Municipio	8,380	26,485	31,285	41,250	107,400
Training	6,805	37,375	31,530	37,575	113,285
C. <u>Credit Program</u>	<u>24,180</u>	<u>61,695</u>	<u>56,270</u>	<u>78,290</u>	<u>220,435</u>
<u>Sub-Programs</u>					
Credit Directorate	16,275	21,050	21,050	22,120	80,495
Loan Branch	7,905	22,410	21,970	32,380	84,665
Loan Supervision	-	18,235	13,250	23,790	55,275
D. <u>Operation Program</u>	<u>14,725</u>	<u>32,030</u>	<u>32,150</u>	<u>44,145</u>	<u>123,050</u>
E. <u>Technical Assistance to the Fund</u>	<u>56,140</u>	<u>138,960</u>	<u>101,960</u>	<u>11,315</u>	<u>308,375</u>
TOTAL	167,315	395,060	366,400	335,225	1,264,000
Less: Fixed Assets	41,000	17,000	3,000	5,000	66,000
Total Operating Costs	<u>126,315</u>	<u>378,060</u>	<u>363,400</u>	<u>330,225</u>	<u>1,198,000</u>

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BANCO NACIONAL DE PANAMA

Condensed Balance Sheet

As of Dec. 31, 19__

	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>Assets</u>			
Cash	29,770	64,569	49,029
Credit Portfolio	86,511	120,942	148,502
Net Fixed Assets	2,650	2,795	3,354
Contingency Assets IMF	11,996	12,097	12,148
Other Assets	<u>5,761</u>	<u>5,896</u>	<u>6,801</u>
Total Assets	<u>136,688</u>	<u>206,299</u>	<u>219,834</u>
<u>Liabilities</u>			
Sight Deposits	61,550	108,586	115,602
Savings & Time Deposits	30,845	35,972	38,733
Liabilities - IMF	13,526	13,864	14,936
Loans - External Banks	5,000	16,375	11,426
Loans international Org.	3,650	3,626	3,426
Other Liabilities	<u>7,736</u>	<u>12,484</u>	<u>18,116</u>
Total Liabilities	<u>122,307</u>	<u>190,907</u>	<u>202,239</u>
<u>Principal Reserves</u>			
Principal	12,011	12,511	14,011
Principal Reserves	<u>2,370</u>	<u>2,881</u>	<u>3,584</u>
Total Capital & Reserves	<u>14,381</u>	<u>15,392</u>	<u>17,595</u>
Total Liabilities, Capital & Reserves	<u>136,688</u>	<u>206,299</u>	<u>219,834</u>

Source: Banco Nacional de Panama.

BANCO NACIONAL DE PANAMA
 Comparative Profit and Loss Statement
 For the year ended Dec. 31, _____
 (000's)

	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>Revenues</u>			
Commissions	861	1,322	1,955
Interest Earned	6,215	8,337	11,660
Other Revenues	<u>553</u>	<u>571</u>	<u>640</u>
Total Revenues	<u>7,629</u>	<u>10,230</u>	<u>14,255</u>
<u>Expenditures</u>			
Administrative Expenditure	3,863	4,536	5,262
Operating Expenditures	<u>2,814</u>	<u>3,929</u>	<u>6,599</u>
Total Expenditures	<u>6,677</u>	<u>8,465</u>	<u>11,861</u>
Net Profit	<u>952</u>	<u>1,765</u>	<u>2,394</u>

Source: Banco National de Panama

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TABLE No. 10

BANCO NACIONAL DE PANAMA
Projected Income Statement
For the Year Ending Dec. 31, 19__
(\$000)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Operating Revenues											
Interest Earned	14,051	16,825	18,056	19,193	20,393	21,922	23,328	24,572	25,720	26,878	28,207
Commissions	1,825	2,197	2,336	2,484	2,639	2,837	3,019	3,180	3,328	3,478	3,650
Other Revenues	621	772	850	903	960	1,032	1,098	1,156	1,211	1,265	1,328
Total Revenues	16,497	19,794	21,242	22,580	23,992	25,791	27,445	28,908	30,259	31,621	33,185
Expenditures											
Administrative Expenditures	5,557	6,512	7,948	8,287	8,641	9,204	9,645	10,063	10,435	10,804	11,234
Operating Expenditures	9,805	11,350	10,469	10,915	11,382	12,122	12,703	13,254	13,745	14,230	14,796
Depreciation	703	744	969	1,011	1,054	1,122	1,176	1,227	1,272	1,317	1,370
Total Expenditures	16,065	18,606	19,386	20,213	21,077	22,448	23,524	24,544	25,452	26,351	27,400
Net Profit	432	1,188	1,856	2,367	2,915	3,343	3,921	4,364	4,807	5,270	5,785

Note: Does not include contributions to cover operating costs of the Fondo de Desarrollo Municipal

Source: Banco Nacional de Panama

TABLE No. 11

BANCO NACIONAL DE PANAMA
 Projected Balance Sheet (\$000)
 As of Dec. 31, 19__

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Assets											
Cash and Bank Drafts	15,345	15,840	17,478	19,831	22,966	26,800	31,533	37,091	43,554	51,039	59,724
Local and External Banks	48,724	50,598	52,683	53,314	55,186	56,921	60,000	64,641	68,641	72,280	78,667
Remittances in Transit	5,301	5,407	5,677	6,018	6,439	6,954	7,580	8,338	9,255	10,365	11,713
Credit Portfolio & Invest.	190,398	197,941	206,235	215,035	224,227	238,806	261,378	272,716	282,795	292,795	304,451
Net Fixed Assets	4,159	4,242	4,454	4,721	5,052	5,455	5,947	6,542	7,261	8,132	9,190
Cotingency Assets IFM	14,400	14,400	14,400	14,400	14,400	14,400	14,400	14,400	14,400	14,400	14,400
Deferred Assets & Other Assets	3,568	3,639	3,822	4,051	4,334	4,681	5,102	5,612	6,230	6,978	7,884
Total Assets	281,895	292,167	304,749	317,370	332,604	354,017	385,940	409,340	432,136	455,989	486,029
Liabilities											
Sight Deposits	107,804	109,672	114,435	120,385	125,205	136,548	149,114	156,873	162,193	167,282	175,000
Term Deposits	90,412	93,014	97,665	100,317	105,772	110,000	122,400	130,000	138,219	146,325	156,325
Obligations-External Banks	8,004	8,164	8,573	9,087	9,723	10,501	11,446	12,591	13,976	15,653	17,688
-Internal Banks	5,006	9,106	9,106	9,106	9,106	9,106	9,106	9,106	9,106	9,106	9,106
Contingent Liabilities	35,117	35,117	35,117	35,117	35,117	35,117	35,117	35,117	35,117	35,117	35,117
Deferred Liabilities & Other Liabilities	17,711	18,065	18,968	20,106	21,514	23,235	25,326	27,858	30,923	34,634	39,136
Total Liabilities	264,054	273,138	283,864	294,118	306,437	324,507	352,509	371,545	389,534	408,117	432,372
Principal and Reserves											
Principal	14,011	14,011	14,011	14,011	14,011	14,011	14,011	14,011	14,011	14,011	14,011
Principal and Reserves	3,830	5,018	6,874	9,241	12,156	15,499	19,420	23,784	28,591	33,861	39,646
Total Principal	17,841	19,029	20,885	23,252	26,167	29,510	33,431	37,795	42,602	47,872	53,657
Total Liabilities and Principal	281,895	292,167	304,749	317,370	332,604	354,017	385,940	409,340	432,136	455,989	486,029

Note: Does not include contributions to Fondo de Desarrollo Municipal

Source: Banco Nacional de Panama

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Table No. 12

BANCO NACIONAL DE PANAMA

Projected Statement of Application of Funds

For the year ended Dec. 31, ____
(\$000)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Funds will be provided by:										
Operations:										
Profit per Income Statement	1,188	1,856	2,367	2,915	3,343	3,921	4,364	4,807	5,270	5,785
Add Depreciation	744	969	1,011	1,054	1,122	1,176	1,227	1,272	1,317	1,370
Term Deposits	2,602	4,651	2,652	5,455	4,228	12,400	7,600	8,219	8,106	10,000
Loans - Banks & International Organizations	4,260	408	515	636	778	945	1,145	1,385	1,677	2,035
Total Funds Provided	<u>8,794</u>	<u>7,884</u>	<u>6,545</u>	<u>10,060</u>	<u>9,471</u>	<u>18,442</u>	<u>14,336</u>	<u>15,683</u>	<u>16,370</u>	<u>19,190</u>
Funds will be applied to:										
Credit Portfolio & Investments	7,543	8,294	8,800	9,193	14,578	22,573	11,338	10,079	10,000	11,656
Fixed Assets	827	1,181	1,278	1,385	1,525	1,668	1,822	1,991	2,188	2,428
Total Funds Applied	<u>8,370</u>	<u>9,475</u>	<u>10,078</u>	<u>10,578</u>	<u>16,103</u>	<u>24,241</u>	<u>13,160</u>	<u>12,070</u>	<u>12,188</u>	<u>14,084</u>
Increase (decrease) in Working Capital	<u>424</u>	<u>(1,591)</u>	<u>(3,533)</u>	<u>(518)</u>	<u>(6,632)</u>	<u>(5,799)</u>	<u>1,176</u>	<u>3,613</u>	<u>4,182</u>	<u>5,106</u>

Note: Does not include contributions to Fondo de Desarrollo Municipal.

Source: Banco Nacional de Panama.

C. Social Soundness Analysis

1. Socio-Cultural Feasibility

a. Economic Imbalance Between Rural and Metropolitan Regions

Since the colonial era there have been two quite different economies - the subsistence economy of the interior agricultural regions, and the service-oriented commercial economy of the canal region.

According to data from the 1971 economic census, 90% of those employed in the service sector of the economy were located in Panama City and Colon and accounted for 94% of total service sector salaries. Panama City and Colon also accounted for 85% of those employed in wholesale commerce and 91% of salaries in that sector. Similar percentages exist in retail sales and manufacturing.

This economic imbalance has contributed to a serious migration from the outlying areas of the country to Panama City and Colon. This is demonstrated by the fact that, while the urban population is growing at an annual rate of 4%, the rural population is increasing by only 2% per year. In other words, the metropolitan area exerts a magnetic influence over the population of the rest of the country.

b. Cultural Patterns

Although not based on any formal nation-wide anthropological or sociological studies the observations that follow are believed to be an accurate representation of certain cultural phenomena of Panama.

Observers have detected the evolution of two distinct cultures in Panama arising from the great differences between the metropolitan, canal-oriented sector and the traditional, rural sector.

In the rural areas a high level of popular participation is noted in organizations that mobilize the population to carry out community development projects. These positive, traditional values are still predominant in the rural areas and are the opposite of values prevalent in the metropolitan areas. The latter are characterized as negative modernism that discourages savings and capital formation required for economic development.

The development strategy of the country and of this project calls for mobilizing the energies of the rural population for development purposes. Implicit in this strategy is the assumption that the positive, traditional values of the rural population will cause them to respond to new opportunities to participate actively

with their local government units in local development programs to improve their economic and social condition.

c. Motivation

The sub-loans, technical assistance and training which the new Fund will provide to the rural municipios will enable them to fulfill a desire that has been strongly felt at the local level for some time. Representatives of the corregimientos and municipios have been putting increasing pressure on the central government authorities to give them more decision-making power and the financial and technical wherewithal to carry out their own development programs (coordinated with regional and national program). It seems safe to assume that the local action agents (the municipal officials) will respond positively and immediately to the financial and technical resources provided by the project, for which they have been waiting for years.

By utilizing the existing local government structure, through which to channel the resources there will be no social disruption caused by attempting to introduce a new institutional apparatus. The change will consist of a positively modified role of the local leadership in its financial and technical capacity to change many of the economic conditions in their municipio. The institution will remain structurally the same but the leadership function will improve in character.

The Program will principally affect people living in the central and western regions of the country. Economic activity in the region is almost exclusively agricultural.

Motivation to participate on the part of local government leaders is assured since it is they who have been asking for this type of assistance and the initiation of projects under their leadership will undoubtedly be beneficial to them politically and socially. The inhabitants will need no prompting to utilize the services and infrastructure provided by the loan and user taxes will be set at a rate to encourage the widest possible participation.

Public participation in sub-projects will vary considerably from one project to another. Although some projects will benefit primarily market town dwellers and others will benefit primarily farm dwellers, it is anticipated that all projects will produce direct or indirect benefits for both groups - both of which can be called rural poor.

Public participation in the sense of paying for the benefits (repaying the loans) may be both direct and indirect. For instance, some projects will be supported entirely by user charges whereas others such as roads, will be supported by general revenues.

In either case, the local beneficiaries will be supporting the projects themselves.

d. Participation of Women

Since attaining equal legal and political status with men in 1940, women can and are voting, being elected to political office and occupying public positions in both the executive and judicial branches of government.

There are now 31 elected female Representatives, of a total of 505. They participate actively in the Provincial Coordinating Councils, Municipal Councils, and in the Juntas Comunales. By so doing, they are able to advocate women's interests in terms of involvement in and benefits from economic and social development.

Women occupy important public positions, including one provincial governor and a vice minister. On the municipal level women are serving as treasurers, accountants, Council secretaries and other administrative and technical positions.

In summary, women are not left out of the political process nor political organization of Panama and, therefore, have considerable opportunity to influence the nature of sub-projects financed by the loan Program and to benefit from them.

e. Obstacles to Project Implementation

Implicit in the project design is a substantial increase of decision-making power at the local level. This responds to the growing aspirations of local government leaders to exercise more control over public sector resources that are spent within their political jurisdiction. Central government officials have resisted a shift towards such local level control, frequently citing as justification a lack of administrative and technical capability of the municipal organization. The project addresses this weakness through technical assistance, training and the provision for technical participation of central government agencies at the Provincial and local levels. Nevertheless, we must expect to see a certain amount of resistance to the "localization" trend exhibited by central government officials. The Fund staff and other program supporters must be alert to this potential problem and seek ways to minimize its adverse consequences. Fortunately, the trend toward more local level decision-making is strongly supported in the 1972 Constitution.

2. Spread Effects

A multiplier effect is anticipated from practically all of the sub-projects in one of three ways: successful sub-projects will be replicated; sub-project's economic benefits will in virtually all

cases extend to the rural areas serviced by the sub-project creating additional employment and increased consumption; and sub-project will be expanded later creating greater benefits.

To achieve significant diffusion of benefits to additional beneficiaries, there is very little that the beneficiaries themselves have to do in order to receive the benefits. This is an important feature of this project. The potential beneficiaries do not have to learn anything new or be conditioned in any special way to relate to the projects or to be receptive of their benefits. The projects will, for the most part, be traditional activities with which the people are already familiar in concept but have lacked for inadequate resources.

3. Social Consequences and Benefit Incidence

a. Psychological Consequence

Based on evidence accumulated from the ongoing community development programs conducted by the government, we anticipate a noticeable increase of self-confidence on the part of the local leaders and other who identify with the successful execution of sub-projects. Although their actual dependence on central government agencies will be only marginally reduced by these projects, it is hoped that they will reinforce the self-help concept and lead to other local initiatives.

b. Benefit Incidence within the Community

The local political leaders (corregidores and alcaldes) will undoubtedly benefit directly from the project in that, by delivering and controlling investments in their communities, their social standing will increase and their political influence will probably expand. The extent to which this phenomenon will be beneficial or detrimental to the target population can only be determined on a case by case basis. But, since those leaders seem, on the whole, to sincerely represent the interests of their constituents, it can be presumed that the results will be largely beneficial.

Anticipated benefits of the projects identified for support in the first stages of the program will accrue entirely to rural dwellers. Many are productive type enterprises that will employ local labor. Other projects will provide much needed services such as potable water, sewerage systems, markets, electric systems, housing. By the nature of projects contemplated, the strategy inherent in the program becomes apparent. On the one hand, employment generating projects are proposed that will have a direct positive income effect through increased employment and availability of lower-priced consumer goods. On the other hand, projects are proposed that will provide public services to a portion of the population

virtually untouched by most national level programs.

Few, if any, people are expected to be adversely affected by the projects at the local level. However, an obvious source of potential conflict arises from the apparent competition of municipal commercial enterprises with the private sector. Our analysis reveals, however, that where such projects are proposed, there is no similar private sector activity and the reason for municipal involvement is precisely to fill the void and supply needed goods and services to the public. Each sub-project request will be analyzed by the fund from this point of view to insure against such conflicts arising. In short, no displacement of ongoing activity is expected to take place.

The project's impact on rural - urban migration will be important in the long run, and is a major factor in its rationale. Some concentration of rural families into the areas of the market town can be expected as a result of employment opportunities and better living conditions in the town. Since the towns and their surrounding farming areas are in close proximity, this movement would not be undesirable. It might represent a healthy labor mobility within a limited geographic area that would contribute to its economic development. In addition, because of the wide dispersion of the population in the rural areas, it is extremely costly to provide them with minimum basic services. By promoting increased rural concentration of the population, this project would make it possible for these rural dwellers to have increased access to these services which should lead to an improvement in their standard of living.

On the other hand, it is hoped that the project, in concert with other GOP rural development efforts, will help to stem the migration from the rural areas of Panama to the metropolitan, canal oriented sector.

D. Economic Analysis

1. Project Impact

There is an urgent need for long-term low-interest credit to finance productive public investment at the municipio level. The availability of such credit will result in higher absolute and relative levels of investment. Priority will be given to projects with demonstrated ability to generate income, the net result in the long run will be greater municipal income as well as increased service.

Investment projects of the municipios are for the most part financed either with the limited funds available annually from municipal revenues in excess of current operating expenditures or by capital transfers from the central government. Funds for investment purposes, not only have been limited in volume, but when available have not been on the most favorable terms. In short, there presently does not exist any satisfactory mechanism for financing of long-range investment programs at the municipio level.

The lack of an adequate institutional basis for providing assistance to the municipios, financial as well as technical, results in economic and social losses to the nation. Many investment opportunities of apparent high benefit/cost ratio exist. So do opportunities to effect savings by providing existing services more efficiently.

Beyond the financial feasibility of the individual sub-projects are the important benefits to be derived by effectively promoting the participation of the rural population in the decision-making and implementation processes of their own development. At the municipio level there are urgent needs and unfulfilled demands for improved potable water systems, power, feeder roads, marketing and storage facilities, and other basic, economic and social infrastructure. The implementation of these projects should not only lead to increased municipio revenues and services, but also to increased employment and wider distribution of the benefits of these development activities.

Finally, these projects will generate employment among the rural poor not only directly but through providing market opportunities for their production.

2. GOP Ability to Repay the Loan

The GOP's ability to meet its obligations under the Loan are a function of the general health of the economy and the government's ability to mobilize resources for public needs. Panama's economic and fiscal performance during the recent past indicates that the government should have no difficulty in meeting its obligations.

a. Economic Growth Trends

During the 1960's, the Panamanian economy, as measured by the Gross Domestic Product, grew at an average annual rate of 8% in real terms. While the rate of growth slipped to 7.5% during the 1970-72 period and further to 6.5% in 1973, the outlook for the medium and long term is for continued high sustained growth. In the short-run, Panama must overcome the same problems that are present in most non-oil producing developing countries, i.e. the tripling of oil prices, sharp increases in the prices of other imports, failure of prices of primary export products to keep pace with import prices, and lower real purchasing power of the lower and middle income groups as a result of inflation. The GOP is well aware of the situation and has launched a comprehensive set of measures to cope with these and other problems. These include an expanded public investment program, the development of several major projects designed both to stimulate economic activity and to increase the country's foreign exchange earning capacity, the subsidization of small farmers and of small and medium size manufacturing establishments producing non-traditional exports, agricultural settlement programs, special incentive measures to encourage export diversification, incentives to encourage the construction of lower income housing and measures to improve investment incentives and the investment climate in the private sector.

3. Central Government Finances

The Central Government's revenue performance in recent years has been quite satisfactory. Between 1970 and 1974, total ordinary revenue collections increased from \$160.1 million to \$271.4 million, or at an average annual rate of 14.1%. Direct and indirect taxes accounted for most of the increase. Income tax collections increased at an average annual compound rate of 13% over 1970-74, while production and sales taxes increased at an annual rate of 14.4%.

These substantial increases in tax collections were made possible by improvements in tax administration, as well as by a number of revenue measures enacted in recent years. In 1970, the rates of personal and corporate income taxes were consolidated and increased, and reforms in tax administration were introduced. Another package in 1972 raised excise and import duties on liquor and cigarettes and increased the tax on gasoline. Measures taken in 1974 included a new tax on beverages and additional administrative measures to close loopholes in the income tax such as the imposition of penalty and interest charges on income tax in arrears. Also, the method of urban property valuation was changed so that the highest value among market price, property registry price, and cadastral value would be applied. But no changes were made in rural land taxation, which provides only an estimated \$350,000 in revenues. In addition, a significant tax increase on banana exports was introduced in June of 1974.

Ordinary expenditures of the Central Government over the 1970-74 period grew at a somewhat slower rate than ordinary revenues - by 11.8% a year versus 14.1%. Consequently, the deficit in the ordinary budget declined from \$16 million in 1970 to only \$4 million in 1974.

Despite the substantial growth of the decentralized public agencies, the Central Government still dominates the public sectors. Over 60% of public sector expenditures were made by the Central Government in 1974, either on its own account or through transfers to the public agencies.

The growth of Central Government investment expenditures in recent years is significant for two reasons: (a) it has provided much needed investment in the areas of basic infrastructure (power, transport, and communications) and in the social and productive sectors (housing, health, education, and agriculture); and (b) public investment (along with private investment) played a major role in the growth of GDP in recent years. Most important, an increasing share of the higher investment expenditures is being earmarked for the economic and social development of the interior of the country, especially the poorer provinces.

Investment outlays by the Central Government, inclusive of capital transfers, increased from \$41.5 million in 1970 to a peak of \$78.1 million in 1973. In 1974, investments were reported to be \$47.8 million, while the budgeted amount for 1975 is \$64.1 million. The sectors to which substantial resources were allocated in the 1973 and 1974 investment programs were power, transport and communications, agriculture and low-income housing.

The level of Central Government savings remained low, even in the years of substantial revenue increases. The potential savings from the revenue effort were substantially reduced by the rise in ordinary expenditures. Consequently, less than 50.0% of Central Government capital expenditures were financed out of savings during 1970-74. Seventy five percent of the borrowing came from foreign sources while the importance of domestic borrowing was substantially less than in previous years.

Commercial sources constituted 72% of foreign borrowing during 1970-74. Official foreign loans (IBRD, IDB and AID and Exim-Bank) amounted to \$107.6 million during the five year period. Gross borrowing of foreign commercial funds ranged between \$40 and \$45 million during 1970-72 and increased to \$65 million in 1973 (largely to finance the purchase of a foreign public utility company). As a result, the Central Government's external public debt increased from \$104.8 million in 1969 to \$358.9 million in 1974, or at an average annual compound rate of 28%. The total public debt (external plus domestic) increased from \$238.7

million in 1969 to \$577.6 million in 1974 for an average rate of 19.3%.

The debt service charges associated with the external debt of the Central Government increased from 17.4% of ordinary revenues in 1970 to 39.6% in 1974. This burden, however, is projected to decrease sharply to 14.0% in 1975, owing to the GOP's success in re-financing its short-term debt by means of a \$115 million ten-year loan (including a four-year grace period) negotiated with a private banking consortium in 1973.

3. Balance of Payments

The balance of payments on current account has experienced a growing deficit over the past four years, increasing from \$63.7 million in 1970 to \$274.9 million in 1974. The major causes of the growing deficit are: (1) a rapidly expanding negative balance in the trade account, increasing from \$199.8 million in 1970 to \$509.4 million in 1974; and (2) less rapid growth in the balance of non-factor services and Canal Zone services, which were not sufficient to offset the increases in the commercial deficit.

Net capital inflow in the form of direct private investment, long-term loans on both private and official account and short and medium term banking capital has been compensating for the negative balance in the current account.

Because of Panama's monetary system its balance of payments is unique. Capital flows are often more independent than current account flows. Changes in the banking system's assets and liabilities are relatively autonomous, rather than the balancing item they are in many other countries. Among the foreign transactions affecting Panama, three sources of receipts are outstanding: (a) the Panama Canal, (b) international banking operations, and (c) public external borrowing.

Net receipts from the Canal Zone, in the form of wages paid to Panamanians and purchases in Panama of goods and services by Canal Zone residents, have traditionally represented the single most important inflow item in the country's balance of payments. While these flows are of a current nature, they are unresponsive to domestic economic policies which affect other current account flows. Rather than reflecting economic performance, they tended to influence it. Net receipts from the Canal Zone covered 41.7% of the current account deficit of the country with the rest of the world in 1974, as against 69.6% in 1970 and 61.1% in 1960. While the recent relative importance of these flows has diminished over time, they still represent an important ingredient in the financing of the current account gap of Panama's balance of payments.

Since 1970, international banking operations have become an increasingly important factor in Panama's balance of payments. The banking sector, which was largely limited to domestic operations prior to 1970, developed into a booming regional financial center as a result of general liquidity in the international monetary system, uncertainties affecting foreign investors in some Latin American countries, the country's dollar currency, and favorable 1970 banking legislation. Net inflows, which averaged some \$7.5 million per year during the ten years prior to 1970, rose to \$64.0 million in 1970 and to an estimated \$250.0 million in 1974.

Because most of the banks are commercial banks, Panama has not yet benefited fully from its growth as a regional financial center. While there is ample short term credit, there is a lack of long term credit, especially for agriculture related infrastructure and the public sector. Thus, many investments for rural development are being financed with short term credit. While insurance companies and savings and loan associations have also expanded rapidly in recent years, they are still small in comparison with the commercial banking system.

The virtually unconstrained growth of the banking system and the substantial expansion of credit have caused some concern about Panama's increasing dependence on volatile, short term capital flows. The rapid increase in foreign deposits could be matched by an equally rapid outflow even as a result of a temporary loss of confidence by foreign depositors. On balance, however, the financial system has had a positive effect on employment and real growth in Panama. With the exception of rural development and the public sector, there is little unrequited demand for long-term loans in Panama. The official investment banks and other public entities would benefit if the Government could tap the growing liquidity of the banking system for long term lending.

In summary, the balance of payments outlook and debt service capacity of the Government are good. The long-term nature of the loan will serve to improve Panama's debt structure. Interest payments during the grace period will be marginal in relation to the current debt service ratio and well within the capacity of the Government to service. The long run economic prospects are even more favorable with the large copper mines coming on stream along with container port, oil pipeline and increasing Canal participation. The prospects for the repayment of the loan are excellent.

Part IV. Implementation Planning

A. Implementation Plan

1. Organization of Fund

a. Loan Implementation Procedures

Assuming loan authorization by September 30, 1975, the Loan Agreement should be signed and the first Implementation Letter issued by October 30, 1975. It is expected that the first disbursement will be made by December 30, 1975, following the fulfillment of the conditions precedent.

During the period from October 1975 to February 1976, the Fund will fully organize and staff its various administrative elements, begin training programs for Fund staff, conduct a promotional campaign to acquaint the rural municipios with Fund programs and initiate assistance to rural municipios in the identification and analysis of eligible projects and in the preparation of sub-loan requests.

b. Staffing

By December 1975, the staffing of the Fund is expected to be completed with 17 persons. This number will be increased to 24 by the end 1976, 27 by the end of 1977 and 34 by the end of 1978, to reflect the growth of the Fund's technical assistance, training and lending programs. Personnel will be selected according to established procedures of the BNP. The Manager of the Fund will nominate personnel, the Department of Personnel of the BNP will review the nominations and the President of the BNP will make the appointments.

In May 1975, Mr. Jaime Simons, Manager of the Industrial Development Department of the BNP, was selected to fill the position of Manager of the Municipal Development Fund. Since his appointment, he and other key BNP personnel have been working full time in designing the Project. Currently, he is nominating persons to fill key positions within the organization.

c. Office Facilities and Equipment

The BNP has selected ample office space for the Fund in a building near the BNP headquarters and is currently refurbishing the facilities. Furniture, fixtures, equipment and vehicles have been budgeted for purchase in November 1975. Additional purchases are programmed during the next 3 years to facilitate the growth in Fund programs. Total costs over the three year life of the project are estimated to be about \$70,000 - furniture and fixtures \$17,000, equipment \$13,000, and vehicles \$40,000. All purchases will be made by the Purchasing Department of the BNP.

d. Staff Training

To institutionalize the Fund within the Bank, the staff must be equipped with the necessary skills to implement Fund programs. For this reason, funds are budgeted for training during the life of the Project. In addition, the Fund will seek scholarships for its staff for short term training from international organizations and foreign governments which offer courses related to Fund programs and objectives. Appropriate courses at the University of Panama and the Office of National Training will also be utilized.

(1) Pre-Project Training

In May 1975 the newly appointed Manager of the Fund, as well as other key officials of the BNP went to Costa Rica for 5 days under USAID sponsorship to observe the operations of the Institute of Municipal Development and Technical Assistance (IFAM).

During the months of July and August 1975, USAID sponsored weekly seminars where various national and international experts on development administration held seminars with BNP personnel as well as key personnel from other national agencies in charge of municipal assistance programs. These seminars covered municipal development, local planning, rural development, local finance administration, regional planning and the kinds of technical assistance likely to be required for Panamanian rural municipios.

These seminars uncovered a significant group of officials in GOP agencies representing excellent potential sources of technical assistance but who previously had been inhibited in discharging their responsibilities towards the municipios essentially for lack of a coordinating mechanism. In addition to the significant financial resources to be made available, the coordinating and planning functions of the Fund were viewed by them as adding important ingredients to vitalize the assistance programs of their agencies to the municipios.

In September 1975 USAID will grant fund a two week observation tour to Colombia and Venezuela for key BNP personnel, including the Vice-President for Government Development Banking, the Manager of the Fund, Chief of the Fund Credit Section and Chief of the Fund Development Section. The group will observe the operation of municipal development institutions in these countries.

(2) Quarterly Evaluation Sessions

The Evaluation Plan specifies that quarterly sessions will be held by the Fund beginning in March 1976 to evaluate the technical assistance, training and sub-loan programs in order to assist management in spotting problem areas and bottlenecks in the execution

of the Project. These sessions will be used also as learning and training instruments for the staff and will be held during the lifetime of the Project.

(3) Observation Trips

The Fund will finance two observation trips for key personnel to study municipal development and technical assistance programs in selected Latin American countries. The first trip is scheduled for June 1976 and the second for June 1977.

(4) Short-Term and Long-Term Participant Training

The Fund with the assistance of the National Training Office, plans to seek scholarships from international organizations and foreign governments for selected personnel to take short term training outside of Panama in subjects related to the Fund's municipal development program. This type of training is planned for the life of the Project.

(5) National Training

The Fund will participate in the training programs offered by the National Training Office by sending selected personnel to attend courses related to the Fund's various programs. In addition, the Fund plans to send selected personnel to attend courses offered by the University of Panama in rural development, municipal administration, regional development, finance administration and public administration.

e. Operating Manuals

Operating manuals for credit, technical assistance, training, accounting, loan supervision, project identification, preparation and execution, will be prepared by the Fund. Manual preparation will begin in November 1975 and will be completed in August 1976. Subsequent manual evaluations and revisions will occur and the final operating instructions will be ready by January 1978. Contract advisors and technicians will assist the Fund staff in manual preparation.

f. Reference Library Organization

The Fund will begin collecting all available Panamanian books and other publications related to Fund programs in November 1975. Building up this resource will occur over the life of the Project.

g. Evaluation and Research

Baseline data collection will begin in November 1975. USAID grant financed assistance will be made available to assist the

Start

Fund staff in determining the technical assistance, training and sub-project needs of the municipios. This baseline study will also shape future evaluations and a continuing information system.

h. Organization of Inter-Ministerial Cooperation

(1) Fund Advisory Council

The President of the National Bank of Panama will call the first meeting of the Advisory Council not later than November 1975 and subsequent sessions will be held every 6 months thereafter.

(2) Fund Technical Coordinating Committee

The Manager of the Fund will call the first meeting of the Municipal Technical Coordinating Committee not later than November 1975 and subsequent sessions will be held every month thereafter. Representatives of the following Ministries are members: Ministry of Planning and Economic Policy, Ministry of Housing, Ministry of Government and Justice and other national institutions which have municipal technical assistance programs.

(3) Attendance at Provincial Coordinating Council Meetings

The Manager of the Fund or his representative will attend as many of the monthly meetings as reasonably possible of each of the 9 Provincial Coordinating Councils. Mr. Jaime Simons, who was appointed in May 1975 to manage the Fund, began attending these meetings in July 1975. See the annexed Amembassy airgram for an account of such a meeting.

2. Project Promotion

At the National Assembly of the elected Representatives of the Corregimientos in October of 1974, the Minister of Planning and Economic Policy announced the proposed creation of the Fund. It aroused great interest from the representatives. Applications (informal) have been received throughout the year by the Ministry of Planning. The formal request for the Loan includes a request that otherwise eligible sub-loans may be reimbursed even though made prior to the signing of the Loan Agreement. It would increase interest in the Fund and enhance the Governments relations with the municipios if a few clearly eligible sub-loans could be made before October 11, 1975.

The President of the BNP in the fall of 1975 will inaugurate the opening of the Municipal Development Fund with representation from various government institutions, governors, alcaldes and other invited guests.

Officials of the Fund have already started to visit governors, alcaldes and municipal councilmen to explain the Fund's programs. These visits will take place periodically during the life of the Project. In addition, the Fund's programs will be explained to the managers of all the ENP branch banks.

Throughout the life of the Project, the Fund will prepare articles for local newspapers concerning sub-loans and other Fund activities.

3. Technical Assistance to Rural Municipios

The collection and analysis of baseline data concerning the technical assistance, training and sub-project needs of rural municipios will be performed by a USAID grant funded contractor. Based in part upon this diagnosis, the Fund will formulate a technical assistance and training program for the rural municipios. This program for improving municipal administration and sub-project management will also include a municipal revenue improvement plan. The design of the first phase of the technical assistance program will begin in November 1975 and will be completed by May 1976 with the assistance of contract advisors and technicians. Both the design and implementation of Phase One will include inputs by those national institutions which have municipal technical assistance programs.

Upon completion of the diagnosis of municipal technical assistance needs, the Fund will design a complete Phase Two technical assistance program based upon the findings. Program design will be completed in December 1976 and implementation by Fund staff and personnel from the other participating agencies assisted by the local and foreign advisors will begin in January 1977. Some 171 man months in technical assistance is tentatively planned over the life of the Project.

4. Training of Rural Municipal Officials and Employees

In November 1975, the Fund, with the assistance of the National Training Office, will begin the design of a preliminary program for training municipal officials. General introductory courses in the administration of municipal finances, taxes, projects, and public services will begin in April 1976 and will be conducted by the Fund with assistance from its contracted advisors and technicians as well as from appropriate national governmental institutions. Some 35 courses, 10 seminars and 5 observation trips are tentatively planned during the life of the Project for the purpose of training mayors, municipal councilmen, treasurers, auditors, council secretaries and engineers.

5. Credit Program

The Fund will begin in the fall of 1975 to target those rural municipios which appear to be capable of managing sub-loans and to encourage them to submit loan applications for apparently eligible projects. In addition, the Fund will consider credit for eligible sub-projects that rural municipios already have on the drawing boards.

6. Technical Assistance to the Fund

To improve operations and to develop technical assistance and training expertise in new areas, the Fund plans to contract technicians and various short-term advisors with A.I.D. Loan funds up to an amount of \$264,000. The Fund, in September 1975, will commence contracting with advisors acceptable to A.I.D. to provide technical assistance financed under the Loan. The principal advisor should be on board before January 1976. Subsequently, the advisors and technicians will render technical assistance to the Fund in on-the-job training in specialized operational areas, preparation of operating manuals, design of training and technical assistance programs for municipal officials and employees, preparing technical policies and guidelines to be followed in analyzing projects, and in other areas deemed necessary by the Manager of the Fund.

7. Research

Shortly after the arrival of the contract advisors and technicians, the Fund, with the assistance of the contractors, will design a research program based on the knowledge requirements to support Fund programs. The program design will be completed in April 1976 and work will begin in May 1976. This program will continue through the life of the Project.

8. Publications

The Fund will publish operating manuals, training manuals and materials, and brochures promoting Fund programs. In addition, research results will be published, as deemed appropriate. Promotional brochures will be published in December 1975. Operating manual preparation will begin in November 1975 and publication will be by August 1976. Preparation of training manuals will begin in April 1976 and publication will be by September 1976.

9. Evaluation

Annual program evaluations will be conducted by a joint USAID and Municipal Development Fund team, preferably right before the preparation of the annual Fund budget. Evaluation instruments such

as the Logical Framework Matrix and the Planned Performance Tracking Network Chart will be used to measure goals, purposes and verifiable outputs, actual versus planned Project performance. The evaluations will measure progress against baseline data concerning training, technical assistance and sub-project needs of rural municipios as well as measuring the impact of specific sub-projects on the target population.

In addition, the above mentioned evaluation instruments will be used to assist the Fund in conducting more frequent project reviews, beginning in March 1976, in order to assist management in spotting problem areas and bottlenecks in the execution of the Project.

The above mentioned annual evaluation will occur during the life of the Project in October or November of each year.

10. Monitoring Responsibilities

The Loan will be monitored by the USAID by a Municipal Administration Advisor in the Office of Rural Development, with close support from a Project Team.

Because of the demonstrated expertise of the BNP in loan administration, it is not considered necessary for the USAID to monitor the engineering, financial and economic soundness of sub-projects by formally participating in the sub-loan approval process. Sub-lending criteria are spelled out in sufficient detail to provide guidance to the Fund management as to project acceptability which will insure that the sub-loans reach the rural poor both in terms of sub-borrower (i.e. smaller, poorer municipios) and of sub-projects which benefit the target population. However, the Mission representative will receive a copy of each sub-loan application for his information and will have the right to consult with the Fund. The purpose of the consultation will be to assure that the sub-loans effectively achieve the purposes of the Project and that the sub-loans are equitably distributed among the municipios so as to confer maximum benefits to the rural poor and to ensure that the sub-loans will not be concentrated in a few large projects.

USAID will approve the utilization of A.I.D. Loan funds for contracting technical assistance. USAID approval will also be required for any changes in the sub-lending criteria, financial policy, credit policy and sub-loan approval regulations of the Fund, as described in the Project Paper.

USAID will receive periodic Fund financial and progress reports as well as the results of quarterly Project reviews. Furthermore, it will participate with the Fund in a joint annual Project evaluation.

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The above discussed approval requirements, reports and Project reviews will provide the USAID with sufficient information to adequately monitor the project.

B. Operating Procedures for Sub-Loans

a. Sub-lending criteria of the Fund

The following criteria have been established by the Banco Nacional for the granting of sub-loans in order to insure that Fund resources reach low income groups both in terms of sub-borrower (i.e. the smaller, poorer municipio) and of sub-projects which benefit the rural poor.

(1) A study of the financial, technical and environmental economic and social feasibility of the sub-project must be performed which clearly demonstrates a beneficial impact on the rural poor majority.

(2) Sub-projects must support plans and strategies of local, regional and national development, which relate to the development of rural municipios and market towns.

(3) Sub-projects must be high priority within the scale of community needs.

(4) The sub-project must not unfairly compete with or impede cooperative and private enterprise initiatives.

(5) The sub-project must have adequate technical assistance and training components which should contribute to improved municipal administration as well as project execution.

(6) The municipio must possess the administrative and financial capacity to administer the sub-project successfully in the judgement of the Provincial Technical Council and the Fund, or agree to receive technical assistance and/or training to provide the capability required.

(7) The municipio must contribute appropriate resources towards the sub-project.

Lending Strategy

The GOP regional development strategy calls for the concentration of its development efforts and resources in the Central and Western regions of the country in which about 70% of the rural population is located. In these regions the GOP has identified several potential growth and service centers. Within the strategy these centers have been selected for priority developmental attention because of the wide impact they can have on their hinterlands. The GOP intends to place particular emphasis on the development of these centers by emphasizing programs and projects which effectively link them economically and socially with the surrounding agricultural areas. This is to be accomplished by emphasizing agricultural production and the necessary related infrastructure and social services. The strategy is based on the belief that a given level of investment for these purposes concentrated in the more densely populated rural areas will have a greater impact on more rural poor than by dispersing an equal investment throughout the entire country.

The project will support this strategy by strengthening the administrative and financial capabilities of the municipios involved in these programs and by providing financial resources for food, rural development and nutrition projects. Those sub-projects will, as their ultimate objective, contribute towards increasing the productivity and income of the rural poor. Thus priority will be given to those sub-projects which:

1. stimulate labor-intensive enterprises
2. improve marketing facilities and systems
3. expand local or small scale rural infrastructure and utilities such as farm-to-market roads, land improvement, energy and storage facilities
4. support systems to provide services and supplies needed by farmers, such as water, fertilizer, and improved seed.

An illustrative sub-project list follows:

1. wholesale and retail markets
2. slaughterhouses
3. feeder road construction and maintenance
4. bridge and culvert construction and maintenance
5. agro-industries
6. artisan and cottage industries
7. water supplies
8. transportation facilities
9. electric power generation and distribution

The rural municipios have indicated an interest in other facilities. The GOP is therefore contributing over and above the \$3 million of project counterpart an additional \$1.5 million so that the Fund may have flexibility to respond to requests, deemed priority by the rural municipios and the Provincial Coordinating Councils, for financing for other types of sub-projects.

b. Credit Terms, Repayment and Execution

(1) Credit Terms

The Fund has established maximum interest rates, grace periods, and maximum repayment periods as components of its credit policy. The amount of credit to finance a sub-project will depend upon the degree to which the project is self-financing, the repayment capacity of the municipio, the type and amount of local contribution, and the Fund's credit resources. The Fund will be so managed as to have an average local contribution of 15%. In any case, the total amount of credit cannot exceed 95% of the cost of the project.

Repayment period will be authorized for a maximum of 20 years, with ten years being the average term. These periods will be determined by the above mentioned sub-loan criteria.

Grace periods, of up to five years will be granted. The average will be two years. However, during grace periods, an annual interest rate of a maximum of 4% on sub-loans will be charged. The Fund will consider the following factors in the granting of grace periods:

Repayment period.

Period of completion of project.

The degree to which the project is self-financing and when.

The repayment capacity of the municipio.

Interest rates on sub-loans will be a minimum of 8% except during the grace period. These rates will be determined by the same factors considered in the setting of grace periods. Penalties for delinquent repayments will be set by the Fund.

A commission of up to 1% of the total sub-loan will be charged for the cost of loan administration. This fee will be deducted from the first sub-loan disbursement.

(2) Repayment

The Fund has several methods to guarantee repayment of sub-loans:

(a) The standard sub-loan contract requires municipalities to authorize the Fund to deduct sub-loan repayments from municipal deposits in the National Bank of Panama and will allow the Fund to charge municipal deposits to cover sub-loan repayments. All municipalities are required to maintain their accounts with the BNP.

(b) The standard sub-loan contract requires municipalities to authorize the Fund to take and sell municipal machinery and property to cover sub-loan repayments, if necessary.

c. Sublending Procedures

The following is the process of sub-loan approval:

(1) Demand for sub-projects is voiced by individual citizens, municipal councilmen, community councils (Juntas Comunales) or other groups or organizations.

(2) The Municipal Council discusses proposed sub-projects and gives formal permission to the Alcalde to seek financing from the Fund.

(3) The Alcalde requests a sub-loan application from a branch of the BNP or directly from the Fund. The Fund provides the municipio with technical assistance in preparing the sub-loan application to insure adequate preliminary project analysis, encourage the submission of high priority projects and to expedite the sub-loan process.

(4) The Alcalde sends the completed application to the Provincial Coordinating Council, where the proposed sub-project is reviewed by the Council in terms of local, regional and national development priorities, needed feasibility studies, and needed technical assistance and training and a formal recommendation is made.

(5) The application, with the recommendation of the

Provincial Coordinating Council is submitted by the Alcalde to the Credit Department of the Fund for project analysis. If the project appears to be a good candidate for meeting sub-lending criteria, the application is sent back to the municipio for necessary financial, technical, social and economic feasibility studies. The Fund advises the municipio in the preparation of these studies with technical inputs from participating agencies, as necessary. If the sub-project is not acceptable, the loan process ends here.

(6) The project is resubmitted to the Fund with accompanying studies. An in depth analysis is made of the loan application by the Credit Department and necessary technical assistance and training programs are recommended as conditions for sub-loan approval. The time required from receipt of a sub-loan application following a favorable recommendation of a Provincial Technical Council to the signing of a sub-loan agreement should not exceed 45 days. If the sub-project meets the sub-loan criteria, the Credit Department sends the application to the Loan Committee for approval. The Committee approves sub-loans ranging from \$10,000 to \$250,000. Sub-loans under \$10,000 may be approved by the Manager of the Fund, and sub-loans over \$250,000 require approval by the Board of Directors of the BNP.

(7) The Municipal Council approves the contract and authorizes the Alcalde to sign in the name of the municipio.

(8) The Alcalde and the Manager of the Fund sign the loan document.

The first disbursement of the sub-loan will occur after the fulfillment of any pre-conditions set forth in the loan contract. The Fund will continue to supervise the administration of the loan in order to assure that loan conditions are fulfilled and that the project is being successfully implemented. Project impact evaluation techniques will be used by the Fund to evaluate sub-projects.

3. Operating Procedures for Technical Assistance

Technical assistance to the municipios may be provided either upon their own request or as a condition for a loan financed project with the Fund. In either case a formal agreement between the Fund and the municipio will be required.

In the event that the municipio takes the initiative and requests the assistance, this request should include as a minimum the following information: (a) general information about the municipio, such as, name, location, population; (b) description of the constraints which the technical assistance will address; (c) scope and period of the assistance; and (d) municipio support, in terms of personnel, office space, transportation, supplies and other logistic support.

The request will be analyzed by the Fund in order to determine the capacity of the Fund to provide the technical assistance on its own or the need to obtain the services of other public or private entities.

Prior to the signing of an agreement for providing technical assistance to the municipios, the Fund will: (a) prepare a program, in collaboration with the municipio and any other participating public or private organization, and (b) prepare a draft agreement which it will submit to the municipio for its approval.

The agreement will include as a minimum the following: (a) general information on the municipio and the Alcalde; (b) a detailed description of the justification for, and the technical assistance to be provided; (c) counterpart contributions by the municipio; (d) the duration of the assistance; (e) the cost of the assistance and, in the case of reimbursable technical assistance, the form of reimbursement; and (f) procedures whereby the Fund and the municipio will cooperate in the evaluation of the assistance that has been provided.

The technical assistance will be provided strictly in conformance with the agreement between the Fund and the municipio, and follow-up and evaluations will be designed and programmed to include the following: (a) field observations on the implementation of the recommendations; (b) dialogue with municipal officials to clarify concepts and resolve problems; (c) examination if the technical assistance being provided is in fact removing the constraints it is designed to eliminate; (d) testing if the municipios are effectively and correctly applying the corrective measures recommended and, (e) ascertaining the necessary adjustments required in order to optimize the assistance.

4. Operating Procedures for Training

Training will be provided for officials and personnel of the municipios in the following cases:

(a) when the Fund determines a need for improving the administrative capacity of the municipio in order to reasonably assure effective use of sub-loan funds, and

(b) when it is required as a result of other GOP development programs in which the municipios have a role to play.

In the implementation of training programs for the municipios the Fund will procure and coordinate the participation and cooperation of other public entities. To this effect, formal agreements between the Fund, the municipio and other agencies will be established. These

agreements will contain as a minimum the following:

- (a) the scope and nature of the training program;
- (b) the clientele to be trained (alcaldes, representatives, accountants, treasurers);
- (c) the type and form of training;
- (d) time and place for implementing the program; and
- (e) follow-up and evaluation procedures.

The Fund will implement its training programs in close collaboration with the National Training Center of the Ministry of Planning and Economic Policy which is legally charged and responsible for the training of all public officials and personnel.

5. Participating Agencies

a. Borrower and Principal Participating Agencies

As stated in the purpose of this Project, the municipal development program will create for the first time in Panama a systematic, sustained and adequately financed mechanism for improving the administrative and financial capabilities of rural municipios and for increasing their investments in public infrastructure and productive enterprises in response to locally felt needs.

The representatives of the corregimientos (wards) who sit on the municipal council also sit with the representatives from other municipal councils on the Provincial Coordinating Committee. The skills they acquire through working with this project should carry forward to improve the process of establishing developmental priorities.

The proposed project provides for the establishment of a Municipal Development Fund as an administrative unit within the Banco Nacional de Panama to provide sub-loans to municipios for developmental projects, technical assistance and training.

The Borrower will be the Government of Panama, which will contribute the loan proceeds on a non-repayable basis to the BNP. The BNP will be the executing agency. In implementing the project, the BNP will act in close collaboration with other GOP agencies with related or complementary assistance programs to the municipios.

b. Supplementary Agencies

Currently, there are three ministries with the legal responsibility for providing specialized technical assistance to the mu-

nicipios. These are the Ministry of Planning and Economic Policy, the Ministry of Government and Justice and the Ministry of Housing. These ministries have within their organizational structure specialized departments or offices which provide technical assistance to the municipios.

The technical assistance programs currently being implemented by these ministries will be coordinated with the activities that will be carried out by the BNP. Appropriate coordinating mechanisms will be established in order to avoid duplication and conflict between the various programs.

c. Related Agencies

In addition, the BNP will develop working relationships with other public agencies which in the discharge of their legal responsibilities provide basic public services and infrastructure with a local development impact. These include the following:

(a) The National Institute for Water and Sewerage (IDAA), which has the responsibility for providing potable water and sewerage disposal systems in communities with a population in excess of 500 people.

(b) The National Institute for Hydrological Resources and Electrification (IRHE) which has the responsibility for developing electrical power infrastructure and for the distribution of electricity.

(c) The National Institute for Telecommunications (INTEL), responsible for providing communication services.

(d) The Ministry of Commerce and Industry (MCI), which among other functions, provides assistance in the development of feasibility studies and promotes small and medium size industrial projects.

(e) The Ministry of Agricultural Development (MIDA), which with the Agricultural Development Bank (BDA), promotes and finances agricultural projects of small and medium size farmers as well as farmers' groups such as cooperatives, asentamientos and the juntas agrarias.

(f) The Ministry of Public Works (MOP), which is responsible among other things, for the construction and maintenance of the road network.

(g) The Ministry of Public Health (MS), which is responsible for providing environmental health services, overseeing the

construction and operation of slaughterhouses and public markets, and providing potable water facilities for rural communities with populations under 500 people.

d. Interagency Coordination

As stated in other sections of this paper, the credit activities of the Fund will be accompanied with technical assistance and training to the municipios in order to provide reasonable assurances of the desired impact of the sub-loans. In the provision of the technical assistance and training to the municipios, the Fund will not attempt to substitute or duplicate the assistance that other public agencies are currently providing but rather supplement and coordinate these into an integrated system of technical assistance which supports and strengthens the various aspects of local development. The mechanisms for establishing adequate coordination among the different ministries and agencies and with the BNP are of a varied nature and occur at different levels. They include:

(a) Legal. A draft executing decree has been prepared as a pre-condition for disbursements of the A.I.D. loan, which will legally obligate the ministries and agencies with related programs to coordinate them effectively with the Municipal Development Program of the BNP.

(b) Administrative. An advisory council and a technical coordinating committee will be established, as part of this project, with adequate representation from the various ministries and agencies with related programs. These units will coordinate policies and programs of their respective agencies with the BNP.

(c) Project Approval Process. The project approval process makes use of the constitutionally established mechanism the Provincial Coordinating Council, in which representatives of all the corregimientos in the province and of the various ministries and national agencies determine project priorities.

6. Organization of the Municipal Development Fund (BNP)

The legal, administrative and institutional elements of the Fund are described below.

a. Legal Basis

The Fund will be created by the Board of Directors of the National Bank of Panama who will authorize it to provide credit, technical assistance and training to municipios individually or associated together for common endeavors.

In addition, a decree law will be issued by the President of the Republic creating an Advisory Council and a technical Coordinating Committee to the Fund with representation from other governmental institutions which have complementary and related programs.

The Fund will be administered by the BNP. The Board of Directors of the BNP, together with the President of the Bank, will determine the policies, regulations and operating procedures for the Fund, according to the development policies established by the national government.

The Fund will be financed by resources of the GOP, loans and income from sub-loan repayments.

According to Law No. 106 of 1973, all municipal loans must be approved by the Executive (the President and Minister of the Treasury). However, the proposed decree law delegates this authority to the BNP in order to simplify the sub-loan approval process.

b. Administrative Organization

The proposed project provides for the establishment of a Municipal Development Division, in which will be located the Municipal Development Fund. The sole activity of the Division will be to administer the Fund. The Division Manager will have the title of Fund Manager. The Division will be under the Vice-President for Governmental Banking who also supervises two other Divisions dealing with the public sector. The structure is illustrated in the annexed Organization Chart.

The Fund will begin operations in the fall of 1975 with a staff of 17. An increase in the number of personnel, departments and sections is programmed over the next three years to reach a level of 34 in 1978. These increases will enable an expansion of technical assistance, training and sub-loan programs.

The location of the Fund in the administrative hierarchy of the BNP is as follows:

- (a) The President of the National Bank of Panama.
- (b) The Vice-President for Governmental Banking.
- (c) The Manager of the Municipal Development Division, who is also the Manager of the Municipal Development Fund.

The Fund is organized as follows: Operations Section, Office of Technical Assistance to the Fund, Department of Development,

Credit Department and the following advisory bodies: (1) Advisory Council, (2) Loan Committee, and (3) Internal Coordinating Committee.

The following are the functions of the above mentioned administrative elements of the BNP:

(1) President of the National Bank of Panama

(a) Directs and supervises the conduct of the Vice-President for Governmental Banking regarding the activities of the Municipal Development Fund.

(b) Submits for approval to the Board of Directors of the BNP policies and regulations concerning the operations of the Fund.

(c) Presides at the meetings of the Fund Advisory Council.

(d) Approves the financial and auditing statements concerning Fund operations.

(e) Submits to Board of Directors sub-loans for approval over \$250,000.

(2) Vice-President for Governmental Banking

(a) Directs and supervises the Manager of the Fund regarding the operations of the Fund and serves as the key link between the Fund and the other administrative elements of the National Bank of Panama.

(3) Manager of the Fund

(a) Exercises the legal authority of the Fund as prescribed by law in the name of the National Bank of Panama by delegation from the President of the BNP.

(b) Programs, directs and coordinates the activities of the Fund.

(c) Proposes to the President of the BNP the administrative organization, staffing pattern, and policies and regulations of the Fund.

(d) Prepares annual budgets and operating plans with the approval of the President of the BNP.

(e) Prepares periodic reports about the activities of the Fund as directed by the President of BNP.

(f) Approves the granting of sub-loans to municipios with a value of \$10,000 or less.

(g) Contracts experts or advisors with the authorization of the President of BNP.

(h) Enters into contracts and agreements with municipios through the delegation of authority granted by the President of the BNP.

(i) Promotes and establishes lines of communication and coordination with other governmental institutions in order to obtain their assistance and cooperation in the implementation of Fund programs and activities.

The following are the functions of the Fund's administrative elements:

Operations Section

(a) Carries out Fund accounting activities and prepares financial reports.

(b) Reviews and approves documentation for sub-loan disbursements as well as bills and collects sub-loan servicing.

(c) Provides administrative support to the other elements of the Fund in coordination with the administrative elements of the BNP.

(d) Manages the scheduling and operation of vehicles.

The Operations Section is scheduled to become a department in 1978.

Office of Technical Assistance to the Fund

Advisors will be contracted to provide technical assistance to the Fund through on-the-job training in specialized areas, preparation of operating manuals, design of training and technical assistance programs for municipal officials and employees, and in other areas deemed necessary by the Manager of the Fund.

Department of Development

(a) Programs and administers the Funds technical assistance and training programs in order to improve the capability

of municipios to identify, plan and administer sub-projects as well as to improve revenue collection and general administration.

(b) Promotes and coordinates the assistance of other governmental institutions in the provision of technical assistance and training to municipios.

(c) Prepares and publishes manuals and materials in support of the technical assistance and training program.

(d) Coordinates with the National Office of Training in the planning and implementation of training programs for municipal officials and employees.

(e) Participates in the periodic evaluation of technical assistance and training programs.

Credit Department

(a) Programs and administers the credit policies and procedures adopted by the Fund.

(b) Assists municipios to prepare sub-loan applications.

(c) Receives and reviews sub-loan applications to determine the administrative and financial capability of the municipio to manage the sub-loan project.

(d) Analyzes and evaluates sub-project feasibility studies in order to determine their financial and technical viability.

(e) Recommends sub-loan terms and the approval of sub-projects.

(f) Prepares the necessary loan documents.

(g) Monitors the execution of the sub-loans in accordance with the sub-loan agreement.

(h) Prepares credit regulations, manuals and other materials relating to the functions and objectives of the Credit Department.

(i) Advises municipios in the purchase of equipment financed by the sub-loan.

(j) Participates in the periodic evaluation of credit programs and policies.

Evaluation and Research Section

(a) Collects and analyzes baseline data concerning the technical assistance, training and sub-project needs of rural municipios.

(b) Designs, and implements an information/evaluation system, including a sub-project specific impact evaluation system.

(c) Establishes a reference library.

(d) Designs and conducts research and analysis required to provide systematic, comparable information as a basis for programming.

Loan Committee

This Committee is composed of the following members: The President of the BNP or his delegate; the Vice-President for Governmental Banking or his delegate, who will preside at the meeting; the Manager of the Fund; the Legal Advisor or his delegate; and other officials as deemed appropriate by the President of the BNP. The Committee will approve sub-loans from \$10,000 to \$250,000. In addition, it will make recommendations concerning credit policies and procedures.

Internal Coordinating Committee

This Committee is composed of the following officials of the Fund: the Manager, who will preside; the Chief of the Credit Department; the Chief of the Development Department; the Chief of the Operations Section and the official in the Manager's Office who will direct and coordinate the evaluation and research activities of the Fund. The Committee will advise the Manager on policies, programs and activities and will serve as a coordinating mechanism for the administrative elements of the Fund.

c. Relationship to the BNP

The internal auditing of Fund operations will be carried out by the auditor of the BNP and the external audit will be conducted by the Controller General of the Republic of Panama. Legal services required by the Fund will be provided by the Legal Department of the BNP.

d. Policy Recommendations and Inter-Agency Coordination

An Advisory Council and Technical Coordinating Committee are to be established by Executive Decree. The Advisory Council, consisting of two Representatives of the municipios, the President

of the National Assembly, the Ministers of Government and Justice, Planning and Economic Policy, and Housing, the President of the BNP and Fund Manager, will make recommendations to the Fund about policies and projects for financing as well as about technical assistance and training programs for municipios.

It will review the Fund's operations and make further recommendations. It will also help the Fund identify needs for technical assistance in the municipios and existing governmental sources of such technical assistance.

The Technical Coordinating Committee, composed of the chiefs of the administrative units of those ministries and autonomous agencies capable of rendering technical assistance and training to municipios, will assist the Fund in obtaining such technical assistance.

7. Administrative Capacity of the National Bank of Panama (BNP)

The National Bank of Panama has a distinguished record of financing economic development programs and appears qualified to administer the Municipal Development Fund. In the area of developmental banking, the BNP has considerable experience in administration, financial management, project analysis and evaluation, which can be used to support the implementation of the Municipal Development Fund Project. The President of the National Bank of Panama, once an employee of USAID/Panama in the Office of the Controller, is highly regarded for his technical and personal competence both in the public as well as private financial sectors.

The BNP, which began operations in 1904, is the largest bank in Panama with a network of 37 branch offices, as well as a number of mobile units which enable it to serve the population in those remote rural areas where it has no branches.

The BNP presently provides multiple services. It serves as the sole depository of all public funds as well as a commercial and development bank. In the latter capacity, it has several windows: industrial development, livestock development, and fisheries development. These windows were started as a result of development loans from IDB, IBRD, respectively. This loan will add another window - municipal development. The installation of these development windows in the BNP is seen by the GOP as the gradual creation of a government development bank.

Since 1963, the BNP has granted over 20 loans to municipios for markets, slaughterhouses, roads, water systems, schools, etc.; nine loans have been granted to Community Councils (Juntas Comunales) for productive enterprises since 1974. This experience has given the BNP considerable knowledge about local project needs, the debt capacity

of municipios, municipal budgetary resources, and loan repayment records, as well as the legal and administrative procedures necessary for municipal loan administration. The resources relating to the BNP expertise in developmental banking will be marshalled to support the implementation of the Municipal Development Fund Project.

The BNP in May 1975 appointed the Manager of the Industrial Development Branch to head the Fund and he and other key BNP staff members have participated actively in designing the Project. At present, the Manager is nominating qualified and experienced persons within the BNP to staff Fund positions. The Fund is expected to be staffed and operating by the fall of 1975.

C. Evaluation Plan

1. Information Evaluation System

The effective operation of the Municipal Development Fund will require an information/evaluation system in order to provide the Fund as well as other interested agencies with the necessary data for planning, managing and evaluating programs and activities. The system will furnish feedback on sub-project implementation and impact as well as on the effectiveness of technical assistance and training programs. Moreover, the information system will establish a communication network between the various administrative elements of the Fund in order to assure effective administration. USAID will grant finance assistance to the Research and Evaluation Division which will:

- 1. provide baseline data on the project needs of selected rural municipios in order to create a rational basis for sub-project selection by the municipios, project prioritization by the Provincial Coordinating Council, sub-project and sub-loan approval by the Fund;
- 2. provide baseline data on the technical assistance and training needs of rural municipios for the design of Fund programs addressing these needs;
- 3. outline the necessary data collection instruments so that the Fund and municipios can monitor the progress of each sub-project during development, execution and management as well as evaluate the economic and social impact on the rural poor.

The above elements of the information/evaluation system are explained below.

a. Baseline Data on Sub-Project Needs

In order to establish priorities and measure the impact of sub-projects, municipal and Fund policy makers as well as other GOP institutions need reliable basic data on major social and economic trends, the specific development needs of rural municipios, the interest and capacity of local institutions to implement change and the plans of national institutions. These four major elements of the diagnosis are explained as follows:

(1) Social and Economic Trends

Information on basic social and economic trends provides indicators of a rural municipio's development potential, its dynamism or its passivity. These indicators suggest the consequences of current trends and imply certain policy decisions. The following will be considered: migration, employment, land tenure, production, marketing, credit, and centers of development.

(2) Specific Needs for Projects and Basic Services

The first part of the diagnosis predicts suitability for development on the basis of the above mentioned socio-economic trends. The second part of the diagnosis analyzes needs and opportunities for projects and basic services in the rural municipios. At this level of analysis, the kinds of projects needed - a feeder road, slaughterhouse, market, or municipal enterprise will be indicated.

(3) Interest and Capacity of Local Institutions

Socio-economic trends and specific projects show what needs to be done in a rural municipio. For needs to be translated into action, the financial and administrative capacity and interest of local government and community organizations must be found to be adequate. In this part a diagnosis of this capacity and interest will be made.

(4) Interest and Capacity of National Institutions

The last part of the diagnosis will consider the plans and resources of governmental agencies available to the rural municipios. This will be an important factor in assessing the potential for their collaboration in developmental efforts by the municipios.

The diagnosis of the above 4 major elements will be followed by a prognosis of what should be done in the selected rural municipio, the specification of the kinds of plans needed to develop specific programs and projects. This list of potential sub-projects will be fed back to the municipios as a guideline for use in their project selection and to help them persuade the Provincial Coordinating Council of priorities.

The division of Research and Evaluation will assemble this information through interviews with groups of knowledgeable persons in rural municipios, interviews with local and national government officials and the analysis of census data and other sources of information.

b. Baseline Data on Municipal Technical Assistance and Training Needs

While assessing the interest and capacity of local institutions as part of the above mentioned diagnosis of project needs, an extensive study will be made of the technical assistance and training needs of rural municipios, particularly those relating to project identification, development, execution, and management. Other areas to be assessed will be: municipal administration, budgeting, planning, financial administration, accounting, tax administration, personnel administration and administration of public services.

This information will be used by the Fund for the purpose of improving the design of technical assistance and training programs.

c. Data Collection Instruments for Project Monitoring and Evaluation

Data collection instruments will be designed so that the Fund can monitor the progress of each sub-project during development, execution and management, and evaluate the economic and social impact on the rural poor. These instruments will also provide rural municipios with a data system which will tell them how to make corrections to improve the administration, impact, equity and financial viability of projects. This includes an early warning system of difficulties and a method of utilizing a maximum of community resources, management and control.

To keep the data collection and analysis cost to a minimum, it will be necessary to involve the municipios as much as possible in the process. This will require a system to be designed so that each sub-project in every municipio to which credit has been extended collects simple but standardized data of several types. First, there will be the need to show the sub-project results and to compare the success of the same general kind of sub-projects across municipios. Second, there will be a need to show the impact of the sub-project on the rural poor so that all sub-projects can be compared. This data can be collected on simple forms at each point of interaction between the sub-project and the sub-project beneficiaries.

Indicators of successful sub-projects can be defined in conjunction with the local participants, and progress toward stated objectives can be measured regularly. Other data on the variables most likely to influence success will be collected as well as the monitoring data necessary to follow the project through to completion.

The above data also will be utilized by the Fund to improve sub-project selection, design and implementation. In addition it will allow the matching of feasibility studies against actual costs and benefits and the determination of which sub-projects have the highest impact on the rural poor as contrasted with those of low impact.

2. Program Evaluation

Annual evaluations will be conducted by a joint USAID and Municipal Development Fund team preferably just prior to the preparation of the annual Fund budget. In addition, the Fund will conduct a quarterly review of technical assistance, training and sub-loan programs in order to assist management in spotting problem areas and

bottlenecks in the execution of the project. Evaluation instruments such as the Logical Framework Matrix and the Planned Performance Tracking Network Chart will be used to measure goals, purposes and outputs against verifiable indicators, in addition to measuring actual versus planned project performance. Data collection instruments will be useful in the evaluation process by providing base line data concerning training, technical assistance and sub-project needs of rural municipios as well as measuring the impact of specific sub-projects on the target population.

The above mentioned data collection and evaluation instruments will assist in providing the following general terms of reference for the evaluation:

(1) Development Role

Has the Fund fulfilled its assigned developmental role? How successful have Fund financed sub-projects been in increasing the capacity of rural municipios to enhance the economic and social well being of their inhabitants and to further the development of market towns as agricultural service centers? Have the Fund's coordinating activities with other GOP ministries and agencies developed as planned and helped the Fund to carry out its functions successfully? Has the Fund played a leadership role in providing the development viewpoint of rural municipios with the GOP? Have GOP programs, policies and actions helped or hindered the Fund in carrying out its functions?

(2) Institutional Progress

Is the Fund a well-run and self-sustaining institution? Have the financial projections described in the Project Paper been achieved? Has the Fund provided or facilitated delivery of the expected types and amounts of financial and technical assistance to the rural municipios? Have the Fund's policies, regulations and directives been developed and utilized as described in the Project Paper? Has the Fund's professional staff been developed as outlined in the Project Paper? Are Internal information/evaluation systems functioning as expected?

(3) Municipal Improvement

Have Fund technical assistance and training programs successfully equipped rural municipios with the capability to identify, develop, execute and manage loan funded sub-projects? Has data collected by the Fund on municipal needs been used to assist rural municipios in planning long range capital improvements programs? Has the Fund's Municipal Revenue Improvement Program been successful in increasing local revenues to the degree expected? Have municipio investments and savings increased significantly? What improvements

in municipal administration have occurred as a result of the Fund's technical assistance and training programs? Has municipio ability to provide public services and infrastructure improved? What has been the social and economic impact of the Fund financed sub-projects on the rural municipios and the target population? Are the sub-projects furthering the development of market towns as agricultural service centers?

(4) Sub-project Costs and Benefits

Which sub-project types have been the best economic and social investments? What have been the costs and benefits of different types of sub-projects? Which sub-project types have been the easiest and the most difficult to administer by the rural municipios? What steps can be taken to improve sub-project administration? Have sub-project loan criteria been followed?

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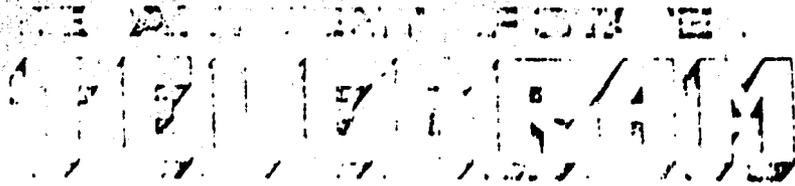
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A GENERAL, IF ONLY TENTATIVE, REGIONAL PLAN SHOULD BE DESCRIBED INCLUDING IDENTIFICATION OF REGIONAL GROWTH CENTERS, SERVICE CENTERS, AND MARKET TOWN (NOTING THEIR ESSENTIAL MINIMAL CHARACTERISTICS) AND SELECTION OF REGIONS OF EMPHASIS AS WELL AS THE RATIONALE FOR THEIR SELECTION.

4. INSTITUTIONAL ANALYSIS: THE CAP MUST ESTABLISH THAT AN ADEQUATE INSTITUTIONAL CAPABILITY WILL EXIST TO ASSURE SOUND AND TIMELY EXECUTION OF THE PROGRAM. THIS IS NOT FULLY APPARENT FROM THE IRR. THE PROGRAM SHOULD BE DESIGNED TO ADDRESS MUNICIPAL GOVERNMENT PROBLEM AREAS WITH TECHNICAL ASSISTANCE AND TRAINING. THE WEAKNESSES OF MUNICIPAL GOVERNMENTS PARTICULARLY IN PROJECT IDENTIFICATION, DEVELOPMENT, EXECUTION AND MANAGEMENT MUST BE ADDRESSED DIRECTLY BY THE GERENCIA/FONDO SINCE MAJOR RESOURCES WILL BE ALLOCATED FOR PROJECTS THROUGH THE SUB-LENDING PROGRAM.

THE CAP SHOULD CONTAIN AN ANALYSIS OF TRAINING REQUIREMENTS RELATED TO AREAS OF MUNICIPAL GOVERNMENT WEAKNESSES AND THE TECHNICAL ASSISTANCE NEEDED FROM THE CENTRAL GOVERNMENT TO HELP MUNICIPALITIES IN THE SOUND DESIGN AND EXECUTION OF THE SUB-LENDING PROGRAM. AGAINST THIS PERSPECTIVE THE STAFFING REQUIREMENTS OF THE GERENCIA ITSELF SHOULD BE DETERMINED. THE CAP SHOULD CONTAIN AN ORGANIZATIONAL PLAN FOR THE GERENCIA AND DESCRIBE THE FUNCTIONS OF EACH OF ITS PROFESSIONAL UNITS AGAINST AN IMPLEMENTATION PLAN FOR THE LOAN-FUNDED PROGRAM. IT WAS THE VIEW OF THE DAEC THAT THE GERENCIA ITSELF SHOULD HAVE THE CAPACITY (PRINCIPALLY THROUGH ITS OWN STAFF OR WITH TECHNICAL ASSISTANCE AS APPROPRIATE) (A) TO ASSURE SOUND SUB-PROJECT DEVELOPMENT AND EXECUTION WORKING WITH THE MUNICIPALITIES AND (B) TO ADMINISTER THE TRAINING PROGRAM. INTER-INSTITUTIONAL ARRANGEMENTS FOR TECHNICAL ASSISTANCE TO MUNICIPALITIES SHOULD BE LIMITED TO THOSE PRINCIPALLY IN SPECIALIZED AREAS WHICH ARE ONLY INFREQUENTLY REQUIRED IN THE EXECUTION OF THE PROGRAM. IN THOSE CASES, PAYMENT FOR SUCH SERVICES TO ASSURE THEIR TIMELINESS AND EFFECTIVENESS SHOULD BE PROVIDED BY THE GERENCIA.

THE RELATIONSHIP OF THE GERENCIA/FONDO TO THE BANCO NACIONAL SHOULD BE CLEARLY SPELLED OUT; I.E., THE AUTHORITIES AND RESPONSIBILITIES OF THE BANK AS BORROWER ON THE ONE HAND AND THE INDEPENDENT NATURE OF THE GERENCIA/FONDO ON THE OTHER. THE RELATIONSHIP ALSO OF DIGEDCOM TO THE PROGRAM SHOULD BE DISCUSSED AND THE RESULTS OF PREVIOUS AID ASSISTANCE TO DIGEDECOR SHOULD BE PROVIDED AS BACKGROUND. THE POSSIBILITIES FOR COOPERATIVE ARRANGEMENTS BETWEEN THE GERENCIA AND DIGEDECOR SHOULD BE EXPLORED. ANY OTHER CENTRAL GOVERNMENT PROGRAMS FOR THE MUNICIPALITIES SHOULD BE DISCUSSED INCLUDING THEIR RELATIONSHIP



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TO THE PROPOSED PROGRAM AND TO THE GERENCIA.

5. SUB-LENDING PROGRAM: THE CAP SHOULD ESTABLISH MUNICIPAL DEMAND FOR THE SUB-PROJECTS TO BE FINANCED UNDER THE PROGRAM AND SHOULD CONTAIN AN ILLUSTRATIVE SUB-PROJECT LIST DISCUSSING EACH PROJECT IN TERMS OF PROGRAM PURPOSES AND THE ANTICIPATED SUB-PROJECT BENEFICIARIES; AND THE LATTER SHOULD BE AGGREGATED INTO A DEFINITION OF THE PROGRAM'S TARGET GROUP. IN PARTICULAR, THE SUB-PROJECTS SHOULD BE FOCUSED ON THE PURPOSE OF MARKET TOWN DEVELOPMENT (WITH PRIORITY REFERENCE TO THEIR EFFECTIVENESS AS AG SERVICE CENTERS) AND THEIR INTEGRATION WITH THEIR HINTERLANDS. SUB-LENDING CRITERIA SHOULD BE ELABORATED IN THE CAP INCLUDING THE SIGNIFICANCE OF THE PRIORITY REGIONS. THE TERMS OF SUB-LENDING SHOULD ALSO BE ELABORATED INCLUDING ANY NEED AND PROVISION FOR GRANT SUBSIDIES WHICH SHOULD FLOW FROM THE FINANCIAL ANALYSIS. THE LOAN DESIGN SHOULD PROVIDE FOR THE LARGE PART OF PROJECT RESOURCES BEING ALLOCATED TO THE LESSER DEVELOPED MARKET TOWNS WHICH MEET THE SUB-LENDING CRITERIA IN ORDER TO AVOID THE ABSORPTION OF A DISPROPORTIONATE SHARE OF PROJECT RESOURCES BY RELATIVELY LARGE RURAL CENTERS SUCH AS DAVID WHOSE EFFECTIVENESS AS AGRICULTURE SERVICE CENTERS IS ALREADY ESTABLISHED. THE CAP SHOULD DISCUSS THE ROLE OF THE MISSION IN SUB-PROJECT REVIEW AND APPROVAL. POSSIBILITIES INCLUDE APPROVAL OF SUBPROJECTS IN EXCESS OF AN APPROPRIATE MINIMUM LEVEL.

6. FINANCIAL ANALYSIS: THE FINANCIAL ANALYSIS SHOULD BE PREPARED ON THREE LEVELS WITH UNDERLYING ASSUMPTIONS CLEARLY STATED:

(A) THE DEBT REPAYMENT CAPACITY OF MUNICIPALITIES SHOULD BE ANALYZED IN SUFFICIENT DEPTH TO ESTABLISH THAT THE MUNICIPALITIES ON WHICH PROGRAM RESOURCES WILL ACTUALLY BE FOCUSED, HAVE THE CAPACITY TO REPAY. SHOULD THE MAJOR TARGET OF RESOURCES (THE POORER MUNICIPALITIES) POSSESS INSUFFICIENT REPAYMENT CAPACITY, THE INTENSIVE REVIEW SHOULD FOCUS ON ALTERNATIVES INCLUDING PROVISION FOR PARTIAL GRANTS AND LIMITING SUB-PROJECTS FOR SUCH MUNICIPALITIES TO THOSE WHICH ARE REVENUE-GENERATING. THE REVENUE-SHARING ARRANGEMENTS OF THE GOP WITH MUNICIPALITIES SHOULD BE DESCRIBED AND POSSIBILITIES OF ALLOCATING SUCH FUNDS IN SUPPORT OF THE PROGRAM SHOULD BE DISCUSSED.

(B) TEN YEAR PROJECTIONS SHOULD BE PREPARED FOR THE FONDO BASED ON THE FORMAT ESTABLISHED IN THE IRR. OPERATING COST PROJECTIONS SHOULD BE EXTENDED FOR AT LEAST TWO YEARS BEYOND THE FINAL YEAR OF AID LOAN DISBURSEMENTS AND SHOULD INCLUDE THE FINANCING OF INTER-INSTITUTIONAL ARRANGEMENTS.

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(C) THE CAP SHOULD ESTABLISH THE REPAYMENT CAPACITY OF THE BORROWER, THE BNP.

7. PERMANENT FUND: USAID SHOULD NEGOTIATE AN AGREEMENT TO THE EFFECT THAT THE LEVEL OF SUB-LENDING AFTER THE FINAL YEAR OF A.I.D. DISBURSEMENT WILL BE MAINTAINED AT LEAST AT THE APPROXIMATE LEVEL OF LENDING DURING THE PERIOD OF AID LOAN DISBURSEMENT. SIMILARLY, THE AGREEMENT SHOULD PROVIDE THAT ANY TECHNICAL ASSISTANCE NEEDS OF THE GERENCIA BE ASSUMED BY THE BORROWER OR GOP.

8. DISBURSEMENT PERIOD: THE DAEC CONCLUDED THAT A FOUR-YEAR DISBURSEMENT PERIOD APPEARS NOT BE NECESSARY SINCE SUB-LENDING ACTIVITY WILL NOT BEGIN UNTIL APPROXIMATELY THE BEGINNING OF CY 1976. FINANCING FOR TECHNICAL ASSISTANCE DURING THE START-UP PERIOD BEGINNING IMMEDIATELY AND UNTIL THE LOAN CAN DISBURSE SHOULD BE PROVIDED THROUGH GRANT FUNDS.

9. EVALUATION PLAN: THE CAP SHOULD CONTAIN AN EVALUATION PLAN WITH THE LOAN PROVIDING FUNDING FOR THE ANNUAL EVALUATIONS AS NECESSARY. THE PLAN SHOULD CONTAIN TARGETS AND PROGRESS INDICATORS AS WELL AS THE BASELINE DATA WHICH PROVIDE A POINT OF REFERENCE FOR MEASURING PROGRESS. PLANNING ASSUMPTIONS SHOULD BE ACCOMPANIED BY VERIFIABLE INDICATORS.

10. THE DAEC SUGGESTS THAT THE LOAN TITLE READ "INTEGRATED RURAL DEVELOPMENT/RURAL MUNICIPALITIES" TO REFLECT MORE APPROPRIATELY THE PURPOSES OF THE PROJECT.

11. ROLE OF WOMEN: AS REQUIRED BY SECTION 113 OF THE FAA, THE CAP SHOULD DESCRIBE THE ROLE OF WOMEN IN THE PROJECT AS AGENTS AND AS BENEFICIARIES. THE CAP SHOULD ANALYZE THE EFFECTS OF THE PROJECT IN THOSE TERMS.

12. TDY ASSISTANCE FOR CAP PREPARATION WILL BE DISCUSSED IN A SEPARATE MESSAGE.

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D E C R E T O No.

(De de de 1975)

Por el cual se promueve el desarrollo de los Municipios.

El Presidente de la República, en uso de sus facultades constitucionales,

D E C R E T A

Artículo 1o. El Fondo de Desarrollo Municipal establecido en el Banco Nacional de Panamá tendrá un Consejo Consultivo cuyas funciones serán las siguientes:

- a) Recomendar al Fondo y al Banco Nacional políticas y actividades de financiamiento, cooperación y capacitación del personal de los Municipios;
- b) Examinar y hacer recomendaciones sobre los informes que le someta a su consideración la Gerencia del Fondo sobre las actividades del mismo; y
- c) Servir de medio de comunicación entre los municipios e instituciones estatales y el Fondo sobre las necesidades de financiamiento, cooperación técnica y de capacitación de personal que tengan los Municipios.

Artículo 2o. El Consejo Consultivo del Fondo estará integrado así:

- a) El Gerente General del Banco Nacional, quien lo presidirá;
- b) El Ministro de Gobierno y Justicia o su delegado.
- c) El Ministro de Planificación y Política Económica o su delegado;
- d) El Ministro de Vivienda o su delegado, y
- e) El Presidente de la Asamblea Nacional de Representantes de Corregimientos.
- f) Dos representantes de los Municipios que serán elegidos por los Alcaldes Municipales entre ellos, por periodo de dos años y mediante convocatoria que hará el gobierno.

Artículo 3o. Todos los organismos públicos deberán cooperar en la realización de los programas de asistencia técnica y financiera a los Municipios y Asociaciones de Municipios con el fin de que dichos programas se ejecuten de manera oportuna y eficaz.

ARTICULO 4o Para coordinar las labores que llevan a cabo otros organismos públicos en materia de asistencia técnica y financiera a los Municipios, créase el Comité Técnico de Coordinación Municipal que estará integrado así:

- a) El Director del Departamento de Asesoría y Coordinación de Gobiernos Locales del Ministerio de Planificación y Política Económica, quien lo presidirá;
- b) El Director del Departamento de Planificación de Centros Urbanos del Ministerio de Vivienda;
- c) El Director del Departamento de Gobiernos Locales del Ministerio de Gobierno y Justicia;
- d) El Director del Centro de Desarrollo del Ministerio de Comercio e Industrias;
- e) El Director de Auditoría Municipal de la Contraloría General de la República;
- f) El Gerente del Fondo de Desarrollo Municipal del Banco Nacional de Panamá.

A este Comité podrán ser invitados otros funcionarios en razón de los temas de trabajos de coordinación que realice.

El Comité servirá de organismo técnico del Consejo Consultivo del Fondo que se crea por este Decreto.

ARTICULO 5o Con el fin de conocer los problemas y consultar las aspiraciones de los Municipios, el Jefe del Fondo de Desarrollo Municipal del Banco Nacional de Panamá o su delegado participará en las sesiones de los Consejos Provinciales de Coordinación.

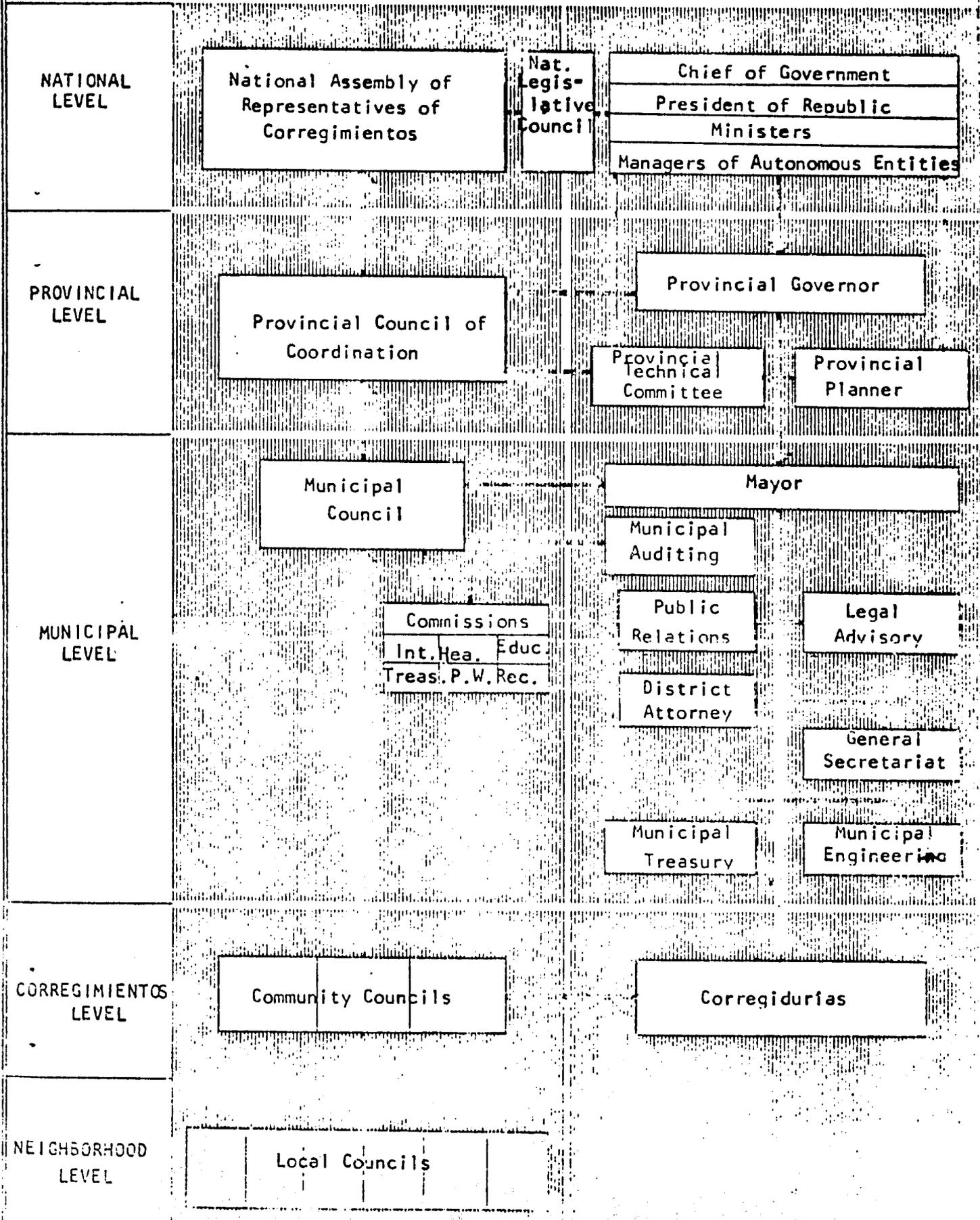
ARTICULO 6o El Fondo de Pre-Inversión del Ministerio de Planificación y Política Económica establecerá líneas de crédito al Fondo de Desarrollo Municipal del Banco Nacional de Panamá para el financiamiento de estudios de pre-inversión de proyectos de desarrollo municipal.

ARTICULO 7o Para efectos de lo que establece el artículo 223 de la Constitución Política considéranse aprobados por el Organo Ejecutivo los préstamos que los Municipios y Asociaciones de Municipios contraten con el Banco Nacional de Panamá mediante el cumplimiento de los requisitos exigidos por los reglamentos de asistencia financiera y técnica del Fondo de Desarrollo Municipal establecido por esa Institución.

ARTICULO 8o. Este Decreto rige desde la fecha de su promulgación.

Dado en la Ciudad de Panamá, a los días del mes de
de mil novecientos setenta y cinco.

POLITICAL AND ADMINISTRATIVE ORGANIZATION OF THE REPUBLIC OF PANAMA - 1975

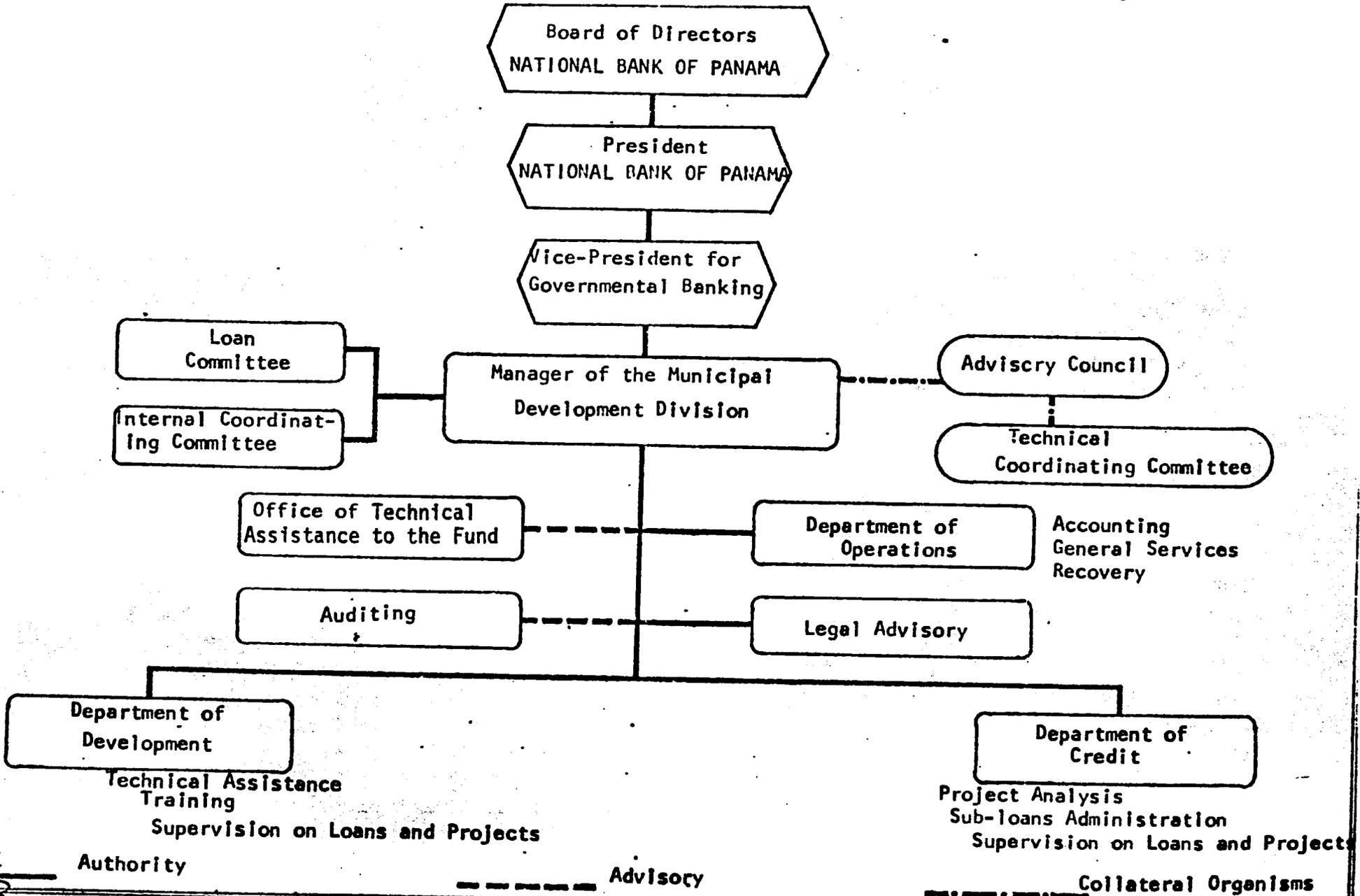


Authority or Participation

Relationship or Coordination

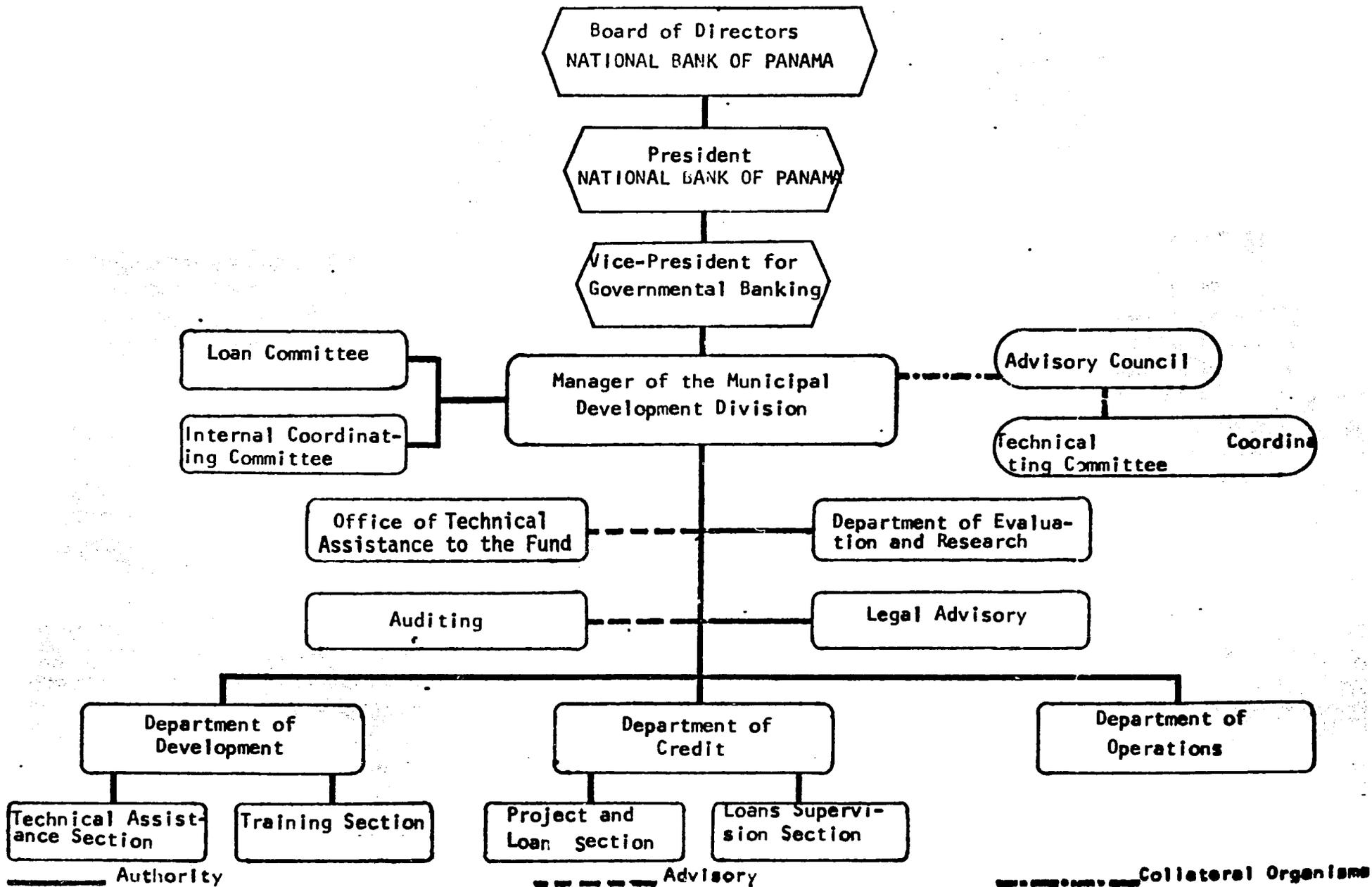
NATIONAL BANK OF PANAMA
 DIVISION (FUND) OF MUNICIPAL DEVELOPMENT
 INITIAL ADMINISTRATIVE ORGANIZATION/1975

ANNEX B
 Exhibit 3



NATIONAL BANK OF PANAMA
 DIVISION (FUND) OF MUNICIPAL DEVELOPMENT
 FINAL ADMINISTRATIVE ORGANIZATION / 1978

ANNEX B
 Exhibit #



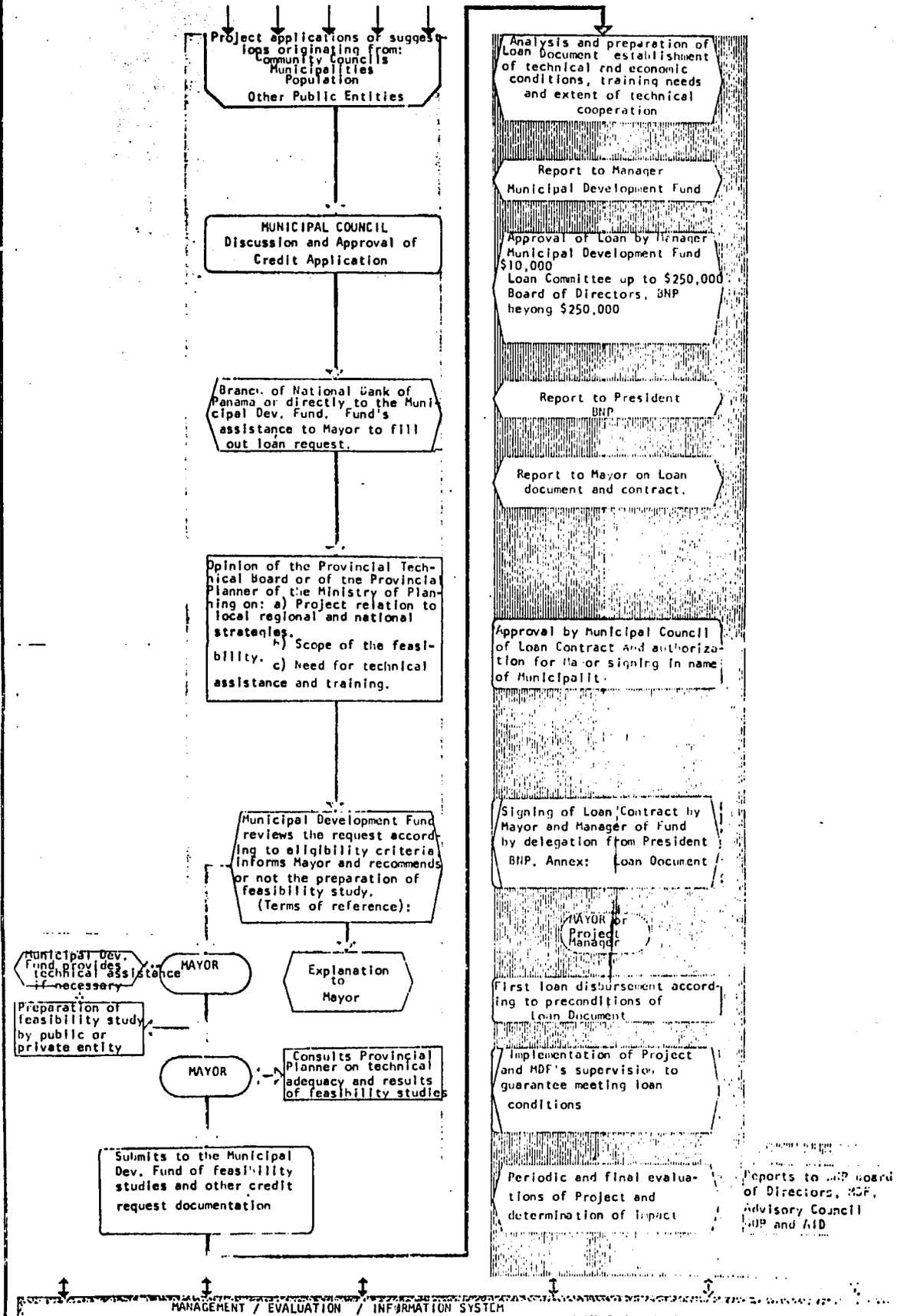
———— Authority

- - - - - Advisory

..... Collateral Organisms

MUNICIPAL DEVELOPMENT FUND - BNP
LOAN TRANSACTIONS CHART

ANNEX B
Exhibit 5



REPUBLICA DE PANAMA
 DISTRIBUCION GEOGRAFICA DE LA POBLACION : CENSO 1970

LOS CENTROS DE LA POBLACION

●	1940
★	1950
☆	1960
☆	1970

CENTROS URBANOS

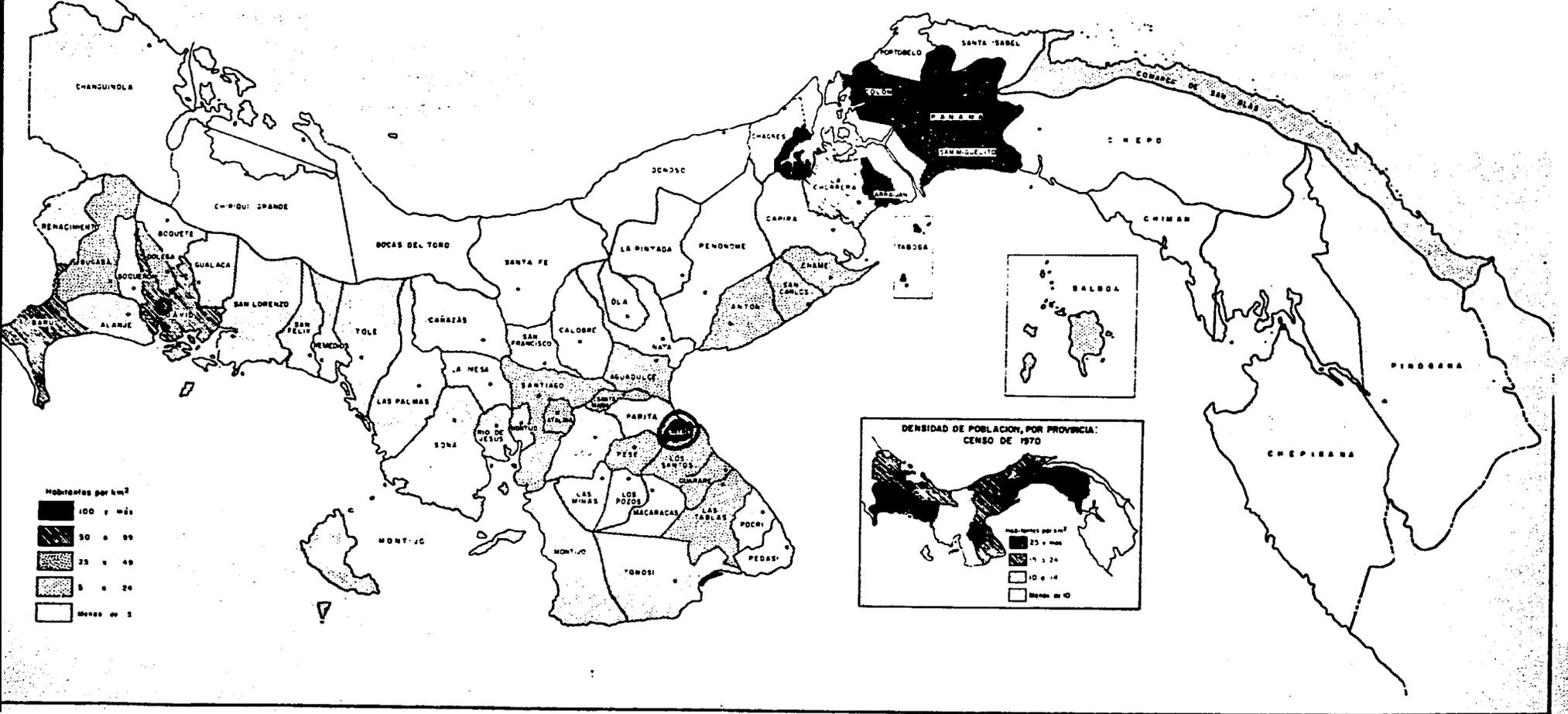
●	100 000	100 000 HABITANTES
●	50 000	50 000 HABITANTES
●	25 000	25 000 HABITANTES
●	10 000	10 000 HABITANTES
●	5 000	5 000 HABITANTES
●	2 000	2 000 HABITANTES
●	1 000	1 000 HABITANTES
●	500	500 HABITANTES

CADA PUNTO EQUIVALE A 100 HABITANTES

El presente mapa fue elaborado por el Instituto Geográfico y Estadístico de Panamá, con base en los datos del Censo de Población y Vivienda de 1970.

1971

REPUBLICA DE PANAMA
 DENSIDAD DE POBLACION, POR DISTRITO: CENSO DE 1970



RURAL MUNICIPAL DEVELOPMENTLOGICAL FRAMEWORK MATRIX

OBJECTIVES

NARRATIVE SUMMARYVERIFIABLE INDICATORSMEANS OF TRANSPORTATIONIMPORTANT ASSUMPTIONSA. GoalMeasures of Goal Achievement

1. Strengthen the constitutional process by institutionalizing the participation of local government units to assume a larger role for identifying and meeting many of the socio-economic needs of their inhabitants in concert with national and regional development programs.

1. The 10 municipios identified by the GOP as growth and service centers, representing 15% of the rural municipios will be providing and/or coordinating a large part of their services within their constitutional mandate by the end of CY 1978.

1. Records & reports of the municipios and the BNP; special studies by the BNP.

1. The GOP constitutional mandate which charges the municipios with the responsibilities for promoting the development of the areas within their jurisdiction will not be altered.

2. A majority of rural municipios (at least 30) will be providing and/or coordinating all of their services within their constitutional mandate by the end of CY 1981.

2. Records & reports of the municipios and the BNP; special studies by the BNP.

2. The GOP will continue to manifest its concern for social justice through actions to improve the standards of living of the rural poor.

3. At least 15% of the value of the development budget reviewed by the Provincial Coordination Councils will be the result of clearly identifiable locally initiated activities by CY 1978. At least 30% by CY 1981.

3. Records & reports of the municipios and BNP, the GOP development budget.

3. Central & provincial government authorities will cooperate with municipal government officials in carrying out their constitutional mandate.

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<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVES</u> <u>VERIFIABLE INDICATORS</u>	<u>MEANS OF TRANSPORTATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
B. <u>Sub-Goal</u>	<u>Measures of Sub-goal Achievement</u>		
1. Enhance the capabilities of rural municipios to:	1. Approximately 150 sub-loans to municipios approved, as follows:	1. Records and reports of the municipios and the BNP.	1. The GOP's regional development strategy will continue to emphasize the development of viable market town systems.
a. Stimulate and provide productive activities and social services.	1976 - 30 1977 - 50 1978 - 70		
b. Develop market town systems providing access for the rural poor to social services and to the market economy.	2. Revenues of rural municipios will increase by at least 50% from CY 1975 to CY 1978 as a direct result of activities initiated under this project.	2. Records & reports of the municipios and the BNP.	
	3. At least 10 rural municipios increase percent of revenues spent annually on development projects by 50% by the end of CY 1978. A majority (at least 30 rural municipios) by CY1981.	3. Records & reports of the municipios and the BNP.	
	4. At least 10 rural municipios have developed and are implementing formal administrative & revenue improvement plans by end of CY 1978. A majority (at least 30 rural municipios) by CY 1981.	4. Records & reports of the municipios and the BNP.	

<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVES</u> <u>VERIFIABLE INDICATORS</u>	<u>MEANS OF TRANSPORTATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
	<p>5. At least 10 rural municipios have prepared and adopted formal medium/long-range development plans by end of CY 1978. A majority (at least 30 municipios) by end of CY 1981.</p>		
	<p>6. At least 25% of the rural population will be directly and substantially benefitted by sub-projects under this program by end of CY 1978. At least 50% by end of CY 1981.</p>	<p>Records & reports of the municipios, the BNP and the Census & Statistics Bureau.</p>	

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<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICATORS</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
C. <u>Purpose</u>	<u>End-of-Project Status</u>		
1. Improve the quality and quantity of rural municipio administration, productive activities and services by concentrating on:	1. Trained Municipal Development Fund staff on board as follows: By end of CY 1976 - 24 By end of CY 1977 - 27 By end of CY 1978 - 34	1. Records & reports of the BNP.	1. At least 75% of the trained personnel of the municipios and the Fund staff remain in their position for a minimum of 3 years.
a. Municipal Admin. b. Development Planning c. Project preparation and implementation	2. Advisory Council and Technical Coordinating Committee operational by 1st quarter of CY 1976	2. Records & reports of the BNP.	2. Other GOP agencies effectively participate in providing technical assistance & training to municipios.
	3. Participating agencies providing coordinated T.A. and training by 1st quarter CY 1976. A minimum of 10 man/years annually by end of CY 1978.	3. Records & reports of the BNP.	3. Municipio officials willing to accept T.A. and training as conditions to sub-loans from the Fund.
	4. At least 10 rural municipios will, by 1978 (and at least 30 by 1981), have:	4. Records & reports of the municipios and BNP.	
	a. Improved budgeting & accounting systems (contains elements of program budgeting)		
	b. Ability to prepare loan requests that are technically and economically acceptable to the BNP.		
	c. Ability to implement loan-financed projects with minimum technical assistance.		

NARRATIVE SUMMARY

OBJECTIVELY
VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT
ASSUMPTIONS

- | | |
|--|---|
| 5. Baseline data for evaluation of the impact of overall programs collected by mid-1976. | 5. Records & reports of the BNP |
| 6. Information-evaluation system designed by end of third quarter of CY 1976. | 6. Records & reports of the BNP. |
| 7. A minimum of 25% of projects evaluated by end of CY 1978 as to the effectiveness of their execution and impact on the rural population | 7. Records & reports of the municipios and BNP. |
| 8. A minimum of 80% of loans to municipios under this project being repaid (including interest) on original schedule. | 8. Records & reports of the BNP. |
| 9. A minimum of 80% of sub-projects meeting projections contained in original sub-loan agreements. | 9. Records & reports of the municipios and BNP. |
| 10. Average length of time between formal submission of request by Mayor for funds until final decision by Fund does not exceed:

a. 60 days by 1976
b. 45 days by 1977
c. 30 days by 1978 | 10. Records & reports of the BNP. |

12/1

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<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICATORS</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
D. <u>Outputs</u>			
1. Municipal Development Fund staff trained.	1. 1976 - 24 1977 - 27 1978 - 34	1. Records & reports of the BNP.	1. All inputs provided in an adequate and timely manner.
2. Municipio officials trained in the following disciplines:	1. 1976 - 200 1977 - 200 1978 - 200	2. Records & reports of the municipios and the BNP.	2. Municipio officials willing to accept T.A. and training as conditions to sub-loans from Fund.
a. Project preparation and implementation.	2. 1976 - 40 1977 - 40 1978 - 40		
b. Municipal administration			
c. Municipal finance and taxation.	3. 1976 - 50 1977 - 50 1978 - 50		3. Other GOP agencies effectively participate in providing technical assistance and training to municipios.
d. Other specialized fields.	4. 1976 - 10 1977 - 10 1978 - 10		
3. Cumulative loan portfolio in BNP. (\$000)	1976 - \$1,324 1977 - 4,257 1978 - \$6,415	3. Records & reports of the BNP.	
4. Operational Procedural Manuals prepared and in use		4. Records & reports of the BNP.	

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CRITICAL PERFORMANCE INDICATORS

country:	project no:	project title:	date:	/ X / original	approved:
Panama	725-0176	RURAL MUNICIPAL DEVELOPMENT		/ / revision #	
<u>CPI NARRATIVE</u>					
1.	6/30/75	Initial Key Staff Selected	14.	4/15/76	First AID Loan Disbursement for T.A.
2.	7/15/75	Staff Training Initiated	15.	6/15/76	All CPs Satisfied
3.	9/30/75	Loan Authorization Signed	16.	6/30/76	Initial Loan Disbursement for Sub-lending
4.	12/15/75	Loan Agreement Signed	17.	8/30/76	Baseline Study Completed
5.	12/15/75	Office Facilities Available	18.	9/30/76	Evaluation of FY 1976 Performance Completed
6.	12/15/75	Fund Established by BNP	19.	12/31/76	Information and Evaluation System Designed
7.	12/15/75	Decree Adopted Creating Advisory Council and Technical Coordinating Committee	20.	12/31/76	CY 1977 Budget and Work Plan Approved
8.	12/31/75	Key Staff on Board	21.	9/30/77	Evaluation of FY 1977 Performance Completed
9.	1/31/76	Fund's CY 1976 Budget and Work Plan Approved by BNP	22.	12/31/77	CY 1978 Budget and Work Plan Approved
10.	1/31/76	Agreement with National Training Center Established	23.	6/30/78	Loan Fully Committed
11.	2/15/76	Baseline Study, Including Information and Evaluation System Design, Initiated	24.	9/30/78	Evaluation of FY 1978 Performance Completed
12.	3/15/76	Initial CPs Satisfied	25.	12/31/78	CY 1979 Budget and Work Plan Approved
13.	3/31/76	Initial Technical Assistance to Fund on Board	26.	12/31/78	Loan Fully Disbursed

Checklist of Statutory Criteria

All Statutory Criteria have been satisfied. The Checklist of Statutory Criteria submitted by the Mission as Annex E to this Project Paper is on file in LA/DR.

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, George Rublee, acting as principal officer of the Agency for International Development in Panama, having taken into account Panama's execution, utilization and maintenance of projects previously financed by the United States, which I have personally observed since June 1971, do hereby certify that Panama has the capabilities (in terms of human as well as financial resources) effectively to maintain and utilize the capital assistance project for Rural Municipal Development which I am recommending for financing with a loan of \$4,000,000.


GEORGE RUBLEE

September 4, 1975
Date



REPUBLICA DE PANAMA
 MINISTERIO DE PLANIFICACION Y
 POLITICA ECONOMICA
 APTDO. 2694 PANAMA 3, PANAMA

AID-DLC/P-2122

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ANNEX G
 Page 1 of 2

PANAMA, 2 DE septiembre DE 1975

Sr. George Rublee
 Director Encargado
 Misión de la "USAID" en Panamá
 E. S. D.

Estimado señor Rublee:

Con la presente nuestro Gobierno solicita formalmente a la Agencia de los Estados Unidos para el Desarrollo Internacional un empréstito por la suma de cuatro millones con cien mil dólares de los Estados Unidos de América (U.S.\$4,100,000); para financiar parte de un programa de fortalecimiento de municipios del interior de la República.

El Banco Nacional de Panamá administrará la ejecución del programa que habría de realizarse en un período de tres años.

El programa está orientado hacia el mejoramiento de la capacidad administrativa y financiera de los municipios del interior para aumentar sus inversiones en infraestructura y servicios públicos y en empresas productivas, en función las necesidades y potencialidades locales.

El programa constaría de los siguientes componentes:

1.- Otorgamiento de Préstamos:

- 1.1. Para crear empresas municipales o mixtas para la explotación de bienes y servicios productivos.
- 1.2. Para construir obras públicas y de mejoramiento y servicios sociales.
- 1.3. Para organizar servicios públicos
- 1.4. Para adquisición de equipo

2.- Cooperación y Asistencia Técnica:

Para la realización de estudios y proyectos; organización administrativa, fiscal e industrial; y para el establecimiento de servicios públicos.

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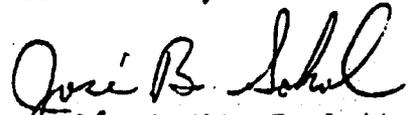
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3.- Capacitación Municipal

Se coordinarían o realizarían programas de capacitación del personal de los municipios para: elevar la eficiencia de la administración municipal; desarrollar el recurso humano responsable de acciones gubernamentales a nivel de municipios; y para la utilización eficiente de la asistencia técnica y financiera que el programa ofrece a los municipios.

Deseamos que el empréstito que se solicita en esta nota incluya el financiamiento del reembolso de sub-préstamos, aplicables al programa, que el Banco Nacional otorgue a los municipios rurales con antelación a la firma del convenio de préstamo con la AID. Nuestro Gobierno previó iniciar en junio del presente año la ejecución del programa objeto del empréstito; y sobre esa base algunos municipios han desarrollado proyectos y solicitado financiamiento para los mismos con cargo al programa. Por causas que usted conoce, no nos fue posible iniciar el programa en la fecha prevista. Sin embargo, no quisiéramos que estos municipios se desalentaran debido a mayores demoras en la realización de sus proyectos.

Atentamente,


por. Nicolás Ardito Barletta
Ministro

c.c. Lic. Ricardo De la Espriella
Gerente General - Banco Nacional.

Lic. Miguel A. Sánchez
Ministro de Hacienda y Tesoro

DRAFT

LOAN AUTHORIZATION

Provided from: FAA Section 103 ("Food and Nutrition")
Panama: Rural Municipal Development

Pursuant to the authority vested in me as Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961 as amended and the delegations of authority issued thereunder, I hereby authorize the establishment of a Loan pursuant to Section 103 of said Act, and in furtherance of the Alliance for Progress, to the Republic of Panama ("Borrower") of not to exceed Four Million United States dollars (\$4,000,000) to assist the Municipal Development Division of the National Bank of Panama (the Fund) to finance training, technical assistance and sub-loans from the Fund to the rural municipios for food, rural development and nutrition projects (the Project).

The loan shall be subject to the following terms and conditions:

I. Interest and Terms of Repayment.

Borrower shall repay the Loan to the Agency for International Development ("A.I.D.") within forty (40) years from the date of the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the outstanding balance of the Loan, interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

II. Other Terms and Conditions.

- A. Goods and services (except for ocean shipping) and marine insurance financed under the Loan shall have their source and origin in Panama or countries included in Code 941 of the A.I.D. Geographic Code Book. Marine insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in Code 941 of the A.I.D. Geographic Code Book, excluding Panama.
- B. Prior to the issuance of any commitment document or to any disbursement under the Loan for technical assistance, Borrower shall submit a time-phased plan satisfactory to A.I.D. for the provision of technical assistance to the Fund.

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- C. Prior to the issuance of any commitment document or to any disbursement under the Loan for other than technical assistance, Borrower shall submit to A.I.D., in form and substance satisfactory to A.I.D.:
1. Evidence of the establishment of the Fund and the adoption of regulations governing subloans to be financed under the Project, including but not limited to, credit policy, loan approval procedures and procurement regulations.
 2. Evidence of the promulgation of the decree law which:
 - a. creates the advisory council to the Fund and the technical coordinating committee and delineates their powers and responsibilities; and
 - b. authorizes the National Bank of Panama to make loans to municipios without receiving prior government approval of each subloan.
 3. Evidence of arrangements to provide appropriate technical assistance to the municipios in support of the Project from agencies of the Borrower other than the National Bank of Panama.
 4. Evidence of arrangements between the Fund and participating agencies to carry out the training program for municipio and Fund personnel, including availability of adequate funds and training personnel.
- D. The Borrower shall cause to be contributed not less than \$3,000,000 to the Project of which not less than \$2,000,000 shall go to sub-loans within the Project.
- E. Sub-projects located in Panama City and the City of Colon may not be included in the Project.
- F. Repayments of subloans to the Fund as well as commissions and interest thereon shall remain available to the Fund, and the Loan and interest thereon will be serviced from the Borrower's other revenues.
- G. During disbursement of the Loan AID will be provided with a copy of each subloan application being considered for financing within the Project, and AID shall have the right to consult with the Fund thereon.
- H. The Borrower shall conduct annual evaluations of the Project with the Fund and with AID during disbursement of the Loan.

- I. The Loan shall be available for offshore and domestic costs of the Project.
- J. The Loan shall be subject to such other terms and conditions as AID may deem advisable.

certain that the officials of the executive branch were aware of their views. Much communication concerning their respective perspectives on development problems took place between the Representatives and the GOP officials. The meeting was an impressive demonstration of the participative and consultative process envisaged by the Constitution. In Panama Province the process appears to be working. The GOP officials present showed awareness that their success in meshing national development priorities as perceived by the planners with local needs as perceived by the Representatives will have a direct bearing on the amount of political support the GOP will enjoy. These meetings provide the means whereby the Representatives and the GOP officials make known their respective perceptions of reality. After the budget is approved at the national level next December, the Representatives will have the task of explaining it to their constituents. END SUMMARY

1. Background

Each of Panama's provinces has a Provincial Coordinating Council (PCC) composed of the members of the National Assembly of Corregimiento Representatives (NACR) from that province. The PCC's are presided over by the Presidentially-appointed provincial Governor. The Council is supported by a provincial "Junta Technica" consisting of the province-level representatives of the various national Ministries, autonomous agencies and public corporations, and the National Guard. This Council is not a legislative body; under Article 206 of the Constitution, its functions are specified as to: "...advance, coordinate and reconcile official activities, and serve as an organ of consultation". The Council for the Province of Panama has no fixed seat; it meets in rotation in various parts of the province.

The meeting of the Council on July 26, 1975, was held at Cañitas, in Chepo District, roughly two hours drive east of Panama City and only short distance from the Bayano hydroelectric project. Official transportation was provided for Representatives. In addition to the Representatives and members of the Gubernatorial and "Junta Technica" staffs, those attending included several officials of the national government (of which the highest-ranking were Vice Minister of Agriculture Gustavo Gonzalez, Vice Minister of Labor Luis Shirley, and Sub-Director of the autonomous Social Security Administration Alberto Echevers), a few students, and the reporting officer and the Chief of the Political Section. The two Embassy officers, who attended by invitation of the Provincial Governor (Carlos Garcia M.), were the only foreigners present.

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II. Organization and Agenda

The meeting was opened by the Governor at about 11:00 a.m. The draft agenda for the meeting, distributed in advance, included the following items:

1. Opening and organization; roll call for Representatives
2. Statement by the Representative ~~from~~ Cañitas
3. Priority provincial development proposals for the biennium 1976-77
4. Consideration of priority proposals for levels below provincial

One Representative stated that he wished to raise other business not strictly germane to the draft agenda, and proposed that a fifth point entitled "Other proposals and business" be added; this was accepted by a large favorable show of hands, and the agenda was adopted as revised.

Of the total of 98 Corregimiento Representatives from Panama Province, about 70 answered the roll call. A high proportion of those absent appeared to have been from Panama (City) District, although several of these showed up later, giving a total attendance at the meeting of about 75-80 Representatives. A half-dozen or so absentees were covered by written excuses including authorization for their alternate (suplente) to vote in their place, which were read during the roll call.

III. Statement by the Representative from Canitas

Instead of the noncommittal welcome which might have been expected, the Representative from the host district gave a detailed recital of points of local concern on which action or response was outstanding from higher authorities. These included such matters as: extension of full-time health service coverage, and ambulance service to the area (now limited to work days, and based in Chepo which is nearly an hour's drive away); extension of telephone service in the area; status of improvement work on roads into and around Cañitas; and so on. COMMENT: This appeared to be a generally-accepted practice; while the various technical services did not appear to be aware in advance of the particular points which would be mentioned, they appeared unsurprised and unperturbed when the Governor called on them for individual responses after the conclusion of the statement. END COMMENTT.

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Responses from the provincial, or in some cases national, agency representatives were brief. For example, Public Works reported on the status, present and projected, of road work in the area, referring to some of the conflicting priorities preventing immediate completion. Regarding health and ambulance service, the national Sub-Director of the Social Security Administration pre-empted his provincial subordinates by directing them to prepare a full report on feasibility and costs of the requested services and have it on his desk the following Tuesday morning. The representative of INTEL (the autonomous government telephone company) proved not to be present, when called on, to the evident discomfiture of the Governor, who directed that a memorandum from him to the head of INTEL noting this absence be prepared and delivered early the following week. The sequence of questions and responses appeared to be favorably received, on the whole, by the local residents present.

This portion of the meeting was ended by a statement by the Governor, who said that such an interchange on issues of direct importance to local residents was an important, if not the most important, function of the Representative for the area. The Government expected first that residents would use their utmost efforts to resolve their problems themselves at a local level, through community activities coordinated by their Representative and "Junta Communal." The people must realize, he said, that even in the United States, the richest country on earth, the Government lacked sufficient means to provide its people with all of their aspirations; the means of Panama, a much smaller country and a developing one, were correspondingly less. Nevertheless, the Government wished to use the means available to it for the benefit of the people, and therefore expected that when any problem proved beyond the capabilities of the local community, the people would exercise their right to turn for assistance to the provincial and national governments, through their local Corregimiento Representative.

IV. Priority Provincial Development Proposals

Consideration of this item was begun by the provincial representative of the Ministry of Planning and Economic Development (the "provincial planner"), speaking on behalf of the "Junta Technica". He described this exercise as a Government effort to involve the people from the lowest possible level in the establishment of development priorities in the national budget being formulated this year for the biennium 1976-77. This year represented the

first trial at budgeting for such activities on a biennial basis; there might be problems which further experience could resolve, and he called on all present to cooperate in making this approach a success.

As the Representatives were aware, he said, each of them had been requested to prepare and submit, in conjunction with his Communal Junta, three proposals which were locally regarded as of highest priority; many of these had already been received, considered and commented upon by the concerned provincial officials. Municipal/Councils, also made up of local Representatives assisted by government officials and technical representatives present at these levels, had similarly been called upon to submit three proposals of highest priority for their areas. Drawing on needs and concerns expressed in these proposals, the "Junta Technica" had developed a list of five proposals which it considered to be of greatest benefit, and thus to warrant the highest priority, for the province as a whole. It was now the function of the Council to discuss these proposals and approve their submission to the national government, as at a later stage it would be their task to explain the Government's actions to their constituents and assist in implementing them.

The Representatives must recall that at this stage, these proposals were not yet "projects"; they must be the subject of further detailed technical scrutiny and planning, and must be harmonized with national development plans, priorities and resources. He also sought delicately to remind that the Representatives were not called on to act as a legislative body to approve or disapprove these proposals; rather, their advice and comments were sought in order to ensure that the proposals submitted, which they would have to explain, were as broadly acceptable as possible. The list and descriptions of the proposals were distributed at the meeting, but many Representatives were evidently familiar with its contents in advance, and at least one came forearmed with rather voluminous documentation, maps and charts dealing with one of the proposals. The Governor reiterated the substance of this initial presentation, and particularly the request for advice and consultation rather than legislative-type action, on several occasions as the meeting dragged on:

There was some detailed commentary on one aspect or another of the various proposals; e.g. there was considerable discussion as to the proposed location of a consolidated maternity and pediatric hospital facility intended to take some of this type

of load off facilities in Panama City and remove them to an area outside the constricted metropolis. The Representatives bogged down for a good many minutes in discussion of which area might be accessible by road to the largest part of the province.

The bulk of the discussion, however, demonstrated the truism that it is frequently difficult for a representative body, in any country or system, to see the general interest amid a welter of conflicting parochial ones. For example, one proposal accorded high priority by the "Junta Technica" calls for construction of a storm sewer system in Panama City. The need for this is quite evident in view of the periodic inundations in the City during the rainy season (the streets outside the American Embassy, like most others, also become nearly impassible lakes at such times). However, albeit that the relatively high number of absentees from Panama City may have had something to do with the fact, this proposal appeared to have virtually no constituency among those present--while everyone was prepared to agree that it might be a good idea, everyone seemed even more prepared to argue that some individual priority of his own was a better one. There were various abortive attempts to add or alter things on the proposed list. The most forceful example of this came from the Representative from San Miguelito, a populous community on the fringe of Panama City which is bearing the brunt of immigration from the countryside of the entire country into the urban area, and suffers from an acute housing shortage. The Representative, consequently made an impassioned plea that a high provincial priority be attached to additional housing for such immigrants in his area. In response, GOP officials noted that retarding immigration from rural areas was a national development goal, and therefore perhaps more money and projects to make rural life more attractive would be appropriate. Nevertheless, the GOP official said that a special priority had been accorded to related activities under a special district for the San Miguelito area. The San Miguelito Representative persisted, however, with a firm proposal that the meeting add a sixth priority to the provincial list relating to his community. This was averted by the Governor, who explained that the requested actions could be accomplished without this and that, in any event, the procedures established by the National Government for this exercise permitted only five such proposals per province.

The role of the "Junta Technica" in establishing the proposed list came in for a great deal of direct fire from the Representatives. Following comments indicating some regret that the real work of setting provincial priorities appeared to have already been done by this body (and wondering how and why the Representatives could or should therefore account for them to constituents), the Governor intervened several times to stress that: (a) the "Junta Technica" alone had the technical expertise to adequately consider in the required detail the feasibility and degree of benefit from these provincial-level proposals; (b) it had been guided in this preparatory work by its knowledge of local attitudes as expressed through local, municipal and district proposals; and (c) it would fully take into account the comments and suggestions made during this discussion. This did not appear to cut much ice with the Representatives; general enthusiasm and a number of supporting statements greeted the suggestion by one of them that the Council should schedule another meeting to act on these proposals rather than continuing with them at this meeting, and that it should hold this later meeting in private, i.e. without the members of the "Junta Technica" present. The Governor pointed out that this was barred by the law governing the composition of the Council, and that the members had need of the advice of the "Junta Technica" in its discussions, but he still had some difficulty in heading off this proposal without a vote. He virtually pushed the meeting through the remainder of the list, and, when putting the question of whether the Representatives would approve the proposals as submitted, introduced the important qualification that their approval be subject to points made during this discussion. Despite this qualification the proposal was supported by only 44 of the 75-80 Representatives present. The vote, taken by show of hands, was announced in almost an undertone (there was no call for votes opposed).

COMMENT: The whole of this discussion evokes some sympathy for the provincial technical representatives who, by all appearances, had done a good deal of work in trying to prepare those proposals which would, in fact, be of the most benefit to the greatest number of people province-wide. The resentment of their role, and reluctance on the part of the Representatives simply to accept the work of these technicians, is far from unique to Panama; its appearance here signifies clearly that the Representatives do not view their role as being that of a "rubber stamp" body. END COMMENT.

V. Priority Proposals Below Province Level

Time did not permit detailed discussion under this item, and the subject was deferred until a further meeting to be held on August 4. However, during other discussion, a fair amount of complaining on this score emerged from both the Representatives and the provincial officials. The former complained that it required undue time to obtain comment or technical evaluation of their proposals, and that these were frequently unresponsive. The latter noted that a distressingly large number of Representatives had not yet submitted their required three proposals, and that others had submitted them in such general or indeterminate form as to make evaluation difficult. The Governor settled the matter for the moment by directing that the following week be one of virtually continual activity by the "Junta Technica", whose members would be expected to travel to as many as possible of those Corregimientos whose Representatives had not yet provided the required proposals, or whose proposals required further consultation and revision. He said he would expect that by the time of the next meeting (ten days away), most of these problems could be resolved by conversations between the "Junta Technica" and the concerned Representatives, and that the remaining ones could be settled at the later meeting.

VI. Other Observations

The additional item for other business was also deferred until the next meeting.

The place of the next meeting gave rise to a certain amount of discussion; an initial offer to host it was followed by several further offers of either alternatives or sites for future meetings. The reasons expressed for these offers were simply that Representatives with problems felt it beneficial to get a crack at the entire "Junta Technica" assembled before the Governor and Council as a means of raising and resolving the greatest number of those problems in the least possible time, as had been done by the Representative from Canitas at this session. COMMENT: It is not unlikely that the fact that this can be done in front of one's constituents at a major meeting has a certain amount of appeal as well. END COMMENT

One factor notable by its absence was active participation in this meeting by the National Guard. Several uniformed officers of the Guard from provincial level attended this session, but none spoke out at any time during the general meeting (it is

not known, of course, whether they did so or not at the private meeting of the "Junta Technica" held immediately prior to the Council session).

The day ended with a visit by the entire group to the site of the Bayano hydroelectric project to observe the construction and be briefed by project officials.

There was almost a total absence of press coverage of this meeting by Panama City dailies; the only item noted during the following week was a front-page box in two papers reporting that the Council had approved a proposal for the construction of a storm sewer system for the City. One item which may, however, have had some relationship to the meeting was what appeared to be a mildly unusual prominence accorded during the following week to some articles reporting various actions undertaken in the special district of San Miguelito.

COMMENT: From our conversations with the Provincial Governor and others we believe that the meeting we observed was typical for the Panama Provincial Coordinating Council. This even extended to the fractiousness displayed by the Representatives toward the leadership from the chair. The Governor attributed this characteristic to the highly diverse backgrounds and interests of the Representatives who compose the Panama Province Council. It includes doctors lawyers, old politicians (active prior to 1968), new politicians, businessmen, journalists, workers and farmers and peasants (52 of the 98 Representatives are from Corregimientos in Panama City). The Province is diverse; hence the Representatives have differing interests to represent. The Governor indicated that other Provinces had less varied problems; thus in Los Santos province, for example, the Representatives could easily reach consensus that schools, access roads and health centers were of top priority, whereas in Panama province, while the rural corregimientos needed these and similar projects, the needs of the metropolitan area were totally different--new hospitals, storm sewer, child-day care center, etc.

The Governor showed himself to be adept at using his place as chairman to defuse heated discussions before they were pushed to undesirable positive actions. His posture and methods were much more those of a parliamentary floor leader or manager (given the fact that the purpose of the body is not legislation, but consultation and comment) than those of an appointed official of a centralized government laying down the law to a group expected tamely to ratify whatever they were told to by the provincial leadership and staff.

Even though the original list of proposals finally emerged relatively unscathed, no one lacked the opportunity to comment; and, the Council's approval of the list was made subject to the commitment that the provincial technicians would take the Representatives' comments into consideration before the list is submitted to the national government. The Representatives were offered, and utilized, a chance for input on proposals prior to their becoming national government policy. Naturally, a great deal in this observation depends on the degree to which the technicians will, in fact, take account of the Council's discussion. The general tenor of the Representatives' commentary in the meeting indicated both resentment that their various pet projects had not been included and hope that their words would have an impact on the final outcome.

The opportunity to comment on national plans before they are fully defined at the national level is crucial to maintaining the sort of government by consultation and consensus that Panama's 1972 Constitution prescribes. If this meeting was typical, and there is no particular indication that it was not, this opportunity is actually being accorded, and the Embassy officers present found the results quite favorably impressive.

The Governor and other GOP representatives present showed understanding of the fact that the GOP must do its best, within the resources available, to take care of the real and perceived needs of the Representatives. This process of consultation, complex time consuming and tiring as it is, is the GOP's way of meshing the national development priorities as perceived by planners with local needs as perceived by the people and their elected Representatives. The Representatives made known-- loudly and firmly--to the GOP representatives their needs and the GOP officials responded. This meeting was only one part of a budget-planning cycle which will produce next December the biennial development budget for 1976-77. The Representatives will then have the task of explaining the final budget to their constituents, and implementing the policies which it reflects. The degree to which they are convinced that the national government has done its best to mesh local and national needs will undoubtedly be reflected in the amount of enthusiasm with which they subsequently support the budget and GOP policies. While the canal problem is the dominant national political and emotional issue in Panama, the GOP's ability to maintain broad support among the Representatives and their constituents is also dependent upon its ability to deliver on "bread and butter" issues of interest to the corregimientos.

JORDEN 



EMBASSY OF THE
UNITED STATES OF AMERICA

ANNEX B
Exhibit 2

August 15, 1975

MEMORANDUM FOR THE FILE

From: POL - Sherman Hinson

Subject: Visit to Saboga, Panama Province, July 28-29, 1975.

SUMMARY: The undersigned accompanied the Vice Governor of Panama Province and a group from the provincial Junta Tecnica to the island of Saboga. From the group's handling of the particular problems, involving the local school and tourist operations on nearby Contadora Island, which brought the group, and the general conduct of the visit, the following observations and tentative conclusions are drawn:

-- there was a consistent stress on action at a local level to resolve problems (as with the school) or to provide services or conduct activities for the profit or general benefit of the community (vis-a-vis tourist operations).

-- there was, concurrently, a consistent effort to build up the public stature, and competence, of the local Corregimiento Representative and the Junta Communal as organs of local political organization; this was done both as a means of resolving the foregoing problems and through utilizing such problems as a means of advancing the general level of political organization and hence the capability to face future problems.

-- the deftness with which the provincial officials handled the situation, and the polish to their public and private presentations, lent great credence to their statements that visits such as this one, and interaction between provincial and local officials and the community, are the norm rather than the exception.

-- the attitudes of the officials appeared favorable to continuance of this situation, avoiding revolutionary fanaticism on the one hand and resentful and contemptuous time-serving on the other.

-- there was a notable absence of revolutionary rhetoric during the visit, with emphasis rather being placed on

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practical problem-solving as a method of community political development; what the officials are doing may in fact be revolutionary in terms of previous policies and practices, but it is not publicly discussed as being revolutionary at the local level.

The conclusion of the undersigned from these observations is that the Government of Panama is actively, and as a matter of calculated policy, engaged in carrying out the process of consultation and communication which the Panamanian Constitution of 1972 provides as an alternative to pure representative and legislative-oriented republican government. Further, it is engaged in acquiring some of the habits, practices and institutions which will be necessary if this process is ultimately to become "bureaucraticized" and incorporated in the normal expectations of both officials and the citizenry regarding the role and function of government. The degree to which this process of contact between provincial officials and local communities, and consultation and communication between them, is maintained will be one indicator of how fundamental a change the current government has really been able to work in the society and politics of the country. END SUMMARY.

The undersigned accompanied a group drawn from the Panama provincial Junta Tecnica to Contadora Island and thence, by launch on both days, to nearby Saboga. The group was headed by the Vice Governor of the Province (Ovidio Caballero) and included provincial-level representatives from the following Ministries: Commerce and Industry; Labor and Social Welfare; Education; Government and Justice (DIGEDECOS). The group also included an officer of the National Guard in plain clothes. COMMENT: From conversations, he was a specialist in drug and narcotics matters. He took no active part in any of the discussions, and no explanation was volunteered for his presence (he avoided the subject when asked obliquely about it). END COMMENT. Several staff personnel accompanied the group.

According to the Vice Governor, the first purpose of the trip (covered in more detail in a separate memorandum) was to respond to a request from Contadora Panama, S.A., for governmental advice and assistance on certain aspects of its operations on Contadora-Saboga. The second was to assist in resolving a problem which had arisen between local parents and the schoolmistress. Third, the group intended to generally try to encourage the local political organization of the area (i.e., the role of the Corregimiento Representative and the Junta Communal).

Background

There has been a small (a few hundred persons) community on Saboga for many years; prior to the inception of tourist operations on Contadora, the community appears to have existed by subsistence farming and fishing. Even at present, sources of income appear few. Most important is employment on Contadora and a few related services (e.g., one of the visitors arranged to have his laundry done by the wife of a Saboga-resident employee, a practice which Contadora Panama would like to enlarge and institutionalize if it could). Some residents appear to work part-time off the island, and/or to remit some income to relatives there. The principal source of indigeneous employment is still fishing; such agriculture as exists appears to be largely for home consumption. There is no industry and, aside from two cantinas, there appeared to be no organized retail trade. The community electric power and water systems are currently owned and operated by Contadora Panama S.A., which installed them at company expense.

The Vice Governor and his staff (particularly including DIGEDECOCOM) characterized local political organization on Saboga as weakest of all the 98 Corregimientos in the Province. COMMENT: On at least one occasion, this was said explicitly and in considerable detail in front of the Representative, who made no objection. END COMMENT. All concerned cited as one reason the parasitism of Saboga on Contadora Panama and its predecessors; the community had developed the habit of turning to the Company, rather than using its own efforts when things needed to be done. There is a similar bias in favor of action from higher levels of government, rather than local action, to resolve local problems. Geographic isolation, and a consequent trickle of the most able and energetic people away from the island, also plays a part. There is some prejudice by those born on the island against those from outside of it (few as yet, but including such important persons as the local school teachers). The local Corregimiento Representative was privately characterized as willing but weak. COMMENT: This appeared true based on the undersigned's brief observations. END COMMENT. Finally, the village is heir to the usual sorts of community problems, gossip and dirt about relatives and exchanges of favors appearing in rural areas everywhere; e.g., everyone on the Junta Communal is related to everyone else, and others consequently lack a feeling of involvement, etc.

Problem of the Schoolmistress

The local school on Saboga has three classrooms and

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three teachers handling the primary grades 1-6. For a rural area, the school appeared quite reasonably equipped; in addition to the usual books and supplies, it boasted a wide variety of printed and home-made educational wall charts, and a primary science kit with geologic specimens, a microscope, some basic chemicals and so on (the latter, however, appeared either quite new or not much used). The teachers, all female, were not natives, although they were residents in the community during school (one was absent at the time of this visit).

At the request of the visitors, a meeting with the Junta Communal was convened which all interested residents of the village were invited to attend. This began outside the school shortly after 4:30p.m. and continued until around 8:30p.m. (thereafter, a further private meeting was held in the home of the schoolmistress, including the latter and her associate, a few leading citizens, the local Representative and the visitors). Although attendance at the open meeting fluctuated, it appeared that well over half of the adult population of the village attended at one time or another.

The Vice Governor noted that his group had come, among other things, due to the problem which it understood existed between the schoolmistress and local parents. Education was too important an area to allow such problems to simmer. Accordingly, he called on all, particularly concerned parents, to state their problems fully at this time, after which the schoolmistress might make any comments she wished. He urged total frankness, not in a spirit of complaint but in order to get at and resolve the problem once and for all. At the Vice Governor's request, the Corregimiento Representative spoke first, followed by most members of the Junta Communal, and the National Guardsman from the Saboga substation (by specific direction of the Vice Governor; he spoke only once and very briefly). The Vice Governor continued to call for comments until he had drawn out virtually all of those present.

The basic complaint was that the teachers considered themselves superior to the residents and their children. The most specific complaint was excessive use of corporal punishment, and occasional informal "suspensions" (i.e., sending a child home for a few days), for alleged misbehavior which the parents did not consider to exist, or to have been serious enough to warrant such action if it did. COMMENT: No one alleged cruel or brutal treatment; the criticism was largely directed at the underlying attitudes and at the disruption of classroom time. END COMMENT. The teachers, and particularly the schoolmistress, maintained a distant attitude toward

parents and the rest of the community. They frequently left for Panama City and failed to get back in time for class after a weekend. COMMENT: No wonder--from seeing it, Saboga is not, repeat NOT, exactly a swinging place to spend a weekend. END COMMENT. The teachers, and again particularly the schoolmistress, had failed to take heed of indications that their general conduct was unacceptable to the parents. The existing situation was compared most unfavorably with that under the previous schoolmistress (i.e., up to a year and a half ago). Local officials, including the National Guardsman, confirmed that there was a visible tension and lack of communication between the schoolmistress (and, to a lesser extent, the other teachers) and the parents. This complaint session was strung out for nearly two hours, until it appeared that virtually everything that had been said previously in private had now been repeated publicly.

In reply, the schoolmistress defended her conduct regarding the discipline of the children by noting that in a class with 25-30 children of several grades and one teacher, indiscipline quickly results in no education at all. This was particularly acute in Saboga, as the children appeared to her to receive no particular discipline at home, and when she had tried to discuss children's conduct with their parents, the latter had failed to back up her requests for assistance. There was a general problem of lack of cooperation by parents, who were not willing to cooperate in things that could easily be done to improve the school. She had not realized that some of her actions, which seemed right and proper to her, had been so ill-taken, but she continued to feel that her methods were important, and that the cure for the problem was more cooperation by parents with her and her teachers.

During the later stages of this interchange, the provincial officials (the Vice Governor and the Education and DIGEDECOCOM representatives) began to offer their observations. First, the local residents must realize that the problem had been, and still was, one which they should solve for themselves. While the central and provincial governments might offer some help on matters such as school supplies, the people must realize that teachers willing to come to the islands were in very short supply; should the schoolmistress be removed, there would be no one to replace her for a long time. If popular feeling had really turned so thoroughly against her, the Education representative said, he would intervene with the Minister personally and have her removed within a few days. All of the provincial officials urged

strongly, however, that the people seriously reconsider the consequences before thinking of such a drastic step. If the entire community felt it necessary, the Ministry would act upon a petition to this effect signed by all heads of families, which should be submitted to the provincial education chief through the Corregimiento Representative.

On the other hand, the provincial officials observed, it appeared that the people had involved their Representative in this situation only very lately, and no one had mentioned any effort to conciliate matters through the Junta Communal. This discussion had demonstrated that the basic problem was one of communication-- the schoolmistress had been unable to relate her concerns and to elicit the cooperation of parents, while the latter appeared unaware of her concerns and had not attempted to apprise her of theirs at an earlier stage. This type of communication was one of the basic functions which the Government envisioned for the Representative and the Junta Communal, and was much more important than using the Representative to petition higher authority for solutions to local problems. This problem was probably soluble at a local level, but this could be done only if it was first recognized that its existence was a demonstration of the weakness of their community organization. It would be best if parents and schoolmistress could reassess their conduct, realize that each side was to some extent at fault, and decide to resolve their differences through their Junta Communal.

This portion of the meeting ended with further statements by the schoolmistress and several parents. The former apologized to the community for not having shown a greater sensitivity toward the feelings of the parents. COMMENT: The not-so-subtle urging toward this from the provincial officials, and the strength of the parents' comments, did in fact appear to have jarred her, particularly since she appeared to have expected that the visitors would defend her position and castigate the community for its lack of cooperation. END COMMENT. She stated that she would make an honest effort to conduct herself in a way that the parents would find acceptable, and asked only that they try equally to cooperate, individually as regards their children's problems in learning and discipline, and collectively for the school's improvement. The parents who spoke pledged a renewed effort at cooperation with the school and its staff and a greater understanding of their

requirements.

During the private meeting that same evening, the schoolmistress and, to a lesser degree, the Representative, got what amounted to a lecture cast in much sterner terms than the even-handedness which the provincial officials displayed (apparently consciously) in public; their business as government officials working at a local level was to cooperate with people, and to enlist their support, rather than trying to circumvent their attitudes. Above all, they must not allow potential problem situations to get out of hand through simple lack of communication. Both of them appeared (although with a bit of injured feelings on the part of the schoolmistress) to take the point.

The following morning in a meeting at the school involving primarily the Vice Governor and the Education and DIGEDECOCOM Representatives, the Representative was strongly advised (probably read "instructed") to call a further open meeting of the Junta Communal with the school staff within a week or ten days to capitalize on the apparent opening for conciliation. The Vice Governor also stated that the schoolmistress was in a position of such importance that she ought at least to be present and participate in any and all meetings of the Junta Communal. It was noted that the school building itself required maintenance and that the ample grounds reserved for it had been misused; there was undergrowth right up to the back of the school, play space in the area was limited, the two-holer outhouse was too close to the school and upgrade from it, and the school grounds had been encroached upon by someone's rather substantial (and occupied) pigsty. The Junta Communal would attempt to organize a work party from among parents and its own members to clear the undergrowth, and to assist in relocating the pigsty to assuage the owner for having to remove it from school property. The DIGEDECOCOM representative pointed out that this was simple enough to do at once, with relatively minimal manpower and with no other assets except machettes, but that it would be highly visible and should demonstrate that the community could accomplish such tasks under the leadership of the Junta Communal. It would also be a stimulus for continued organization of some sort to keep the grounds clean, and for further follow-up actions. The Contadora Panama representative offered enough paint for the school building, and the Representative was advised to try organizing a group to do the painting once the ground clearance had been done. The provincial officials, in addition to expediting certain supplies needed by the

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school, would explore assistance in building new toilet facilities; Contadora Panama stated that it would also try to assist in this, and that the facilities could be made more sanitary, in addition to relocating them, once a planned expansion of the capacity of the community water system was completed. It was noted that there was ample space for future construction of new classrooms, if and as required (especially after the housing for employees on Contadora is completed). However, there seemed to be general agreement that this had best wait until the need was clearer, additional assets could be made available by the government, and the community was a bit more organized and more confident of its own ability to accomplish the task.

COMMENT: Throughout this aspect of the visit, and particularly during the open Junta Communal meeting, the one thing which struck the undersigned was its resemblance, on a very ad hoc basis, to concepts such as "sensitivity groups" or PRC-style "self-criticism sessions", i.e., while this was nowhere stated, the evident aim of the visitors was to keep both sides at it until all of the complaints about each other, however unflattering, had been spoken face to face, and then to keep at them until each side admitted to some fault in the matter and pledged to do better--while the larger part of the blame appears to rest on the schoolmistress, there was no humiliating public repudiation and tongue-lashing for her (or for the Representative), which might have compromised either their public effectiveness or their self-confidence and willingness to try again. Several provincial officials remarked that this sort of problem cropped up virtually everywhere. From the smoothness of the proceeding, and particularly of the officials' public presentations, the undersigned infers that these officials (and presumably others on the Junta Tecnica) have had a good deal of practice in this approach, and probably treat other problems of which they become aware of which they are called in to act upon in pretty much the same manner. END COMMENT.

Development of Local Political Organization

The problem of the schoolmistress occupied the bulk of the time the provincial group was on Saboga. It was clear, however, that the dual purpose in this was, a) to resolve the proximate problem, and b) in a manner best calculated to enhance the role and status of the local Corregimiento Representative and the Junta Communal. This was accomplished both through the stress laid on their roles

as means of communal communication, and through using the school as a pretext for giving the Junta Communal some concrete, visible and easily-accomplished tasks which it could carry out.

Parallel to this, the provincial visitors made an obvious conscious effort to further beef up the viability of local political organization through:

- deferring at every public opportunity to the Representative;
- publicly calling on him to vocalize the opinions of his constituents;
- using him as virtually their sole guide around the community;
- urging others with whom they spoke to bring him their grievances, requests, comments and so on, particularly about the role of higher levels of government;
- making frequent verbal comment on what the provincial or central governments could do for the people "through the Corregimiento Representative", etc.

The handling of the school issue exemplified this approach. A second example: at the close of the open Junta Communal meeting, the representative of Contadora Panama S.A. was called on to explain certain commercial opportunities which the company considered open to residents of Saboga (see separate memo for details). The provincial officials constantly directed discussion of these toward their consideration as opportunities for the community, to be executed either by the Junta Communal itself or by a body or individual under its sponsorship and with its active participation. They made it clear that expert technical assistance could and would be made available to the whole community "through the Corregimiento Representative".

Finally, throughout the visit at every available opportunity, the Vice Governor and DIGEDECOP kept after the Representative as to his plans for future community action, arrangements for the election of Juntas Locales (which had not yet been done), and so on. All of this was couched in terms of a wish to discuss matters and offer assistance as possible, but its point appeared as such to make the man realize what he needed to do and how to go about it, and to make it clear to him that someone was watching who expected that he do it.

During the open meeting, the Vice Governor and his staff made a point of their continued availability, and that of other provincial personnel as needed, for consultation as required by the community and Representative. The Vice Governor stated publicly that he planned to make a personal project out of the islands, and that he hoped to be back within a couple of weeks for further discussion. He later commented privately that it was obvious that this community and its Representative would need a good deal of encouragement, and discrete oversight, before they picked up enough momentum to sustain themselves; although tiring, his function, as he saw it, was to provide just this sort of assistance through his personal presence.

Related Comments by Government Officials

The provincial officials, it appears, are called on to be almost compulsively peripatetic in making visits such as this one to local communities. The Vice Governor stated that he made a minimum of two such trips per week (mostly not involving overnight stays, however), and was frequently on the go with some of the provincial staff four days a week, with Wednesday reserved for office work. The nature of the group from the Junta Tecnica with which he travelled changed from trip to trip, depending on who was available, the nature of the area to be visited, and the problems to be dealt with. The underlying purpose of such visits, regardless of the particular reason for making any one, was partially to assure that the provincial staff remained in visible contact with the people, and even more to encourage the Corregimiento Representatives and local bodies in their jobs and to build up their stature in the eyes of their constituents.

When asked how the provincial government kept posted on the status of political development at local level (i.e., how did he know that Saboga was weakly-organized), the DIGEDECOR Representative explained that much of the direct contact work between the provincial government and the localities on this subject is performed by DIGEDECOR district-level staffs, which are now located in virtually every district in the country. Even a relatively small district such as Chepo has a DIGEDECOR staff of five, while Panama (city) district has at least 28 DIGEDECOR personnel at district level. These district staffs are expected to visit each and every Corregimiento at least twice a month (the Balboa district DIGEDECOR Representative was present for part of the Saboga visit), and more often if necessary. The provincial staff responds to particular problem areas noted by its district representatives, and

is expected to visit every Corregimiento in the province about once every three months to observe and monitor developments.

Comments

Although the undersigned has no basis on which to compare this visit with normal governmental practices in Panama, what was observed points to a few possible conclusions.

First, the officials involved appeared to have had plenty of practice in handling visits such as this one; their presentations were polished, their handling of people and groups apt. Based on the comments of the officials in the group, visits such as this are the norm rather than the exception. This suggests an unusually high degree of contact between provincial officials and the populace, and, as a corollary, a conscious effort by the government not merely to favor but to force such contact; i.e., its behavior on the subject is actual, as well as verbal.

Second, based on off-duty comments, the officials appeared to be men reasonably contented with working at jobs they knew fairly well, and to have a genuine sympathy with the people with whom they dealt. Such griping as occurred (and there was a fair amount, with no particular feeling present that it had to be restrained in the presence of superiors) about work hours, time in the field and the nature of the people and their problems appeared to be relatively good-natured; the atmosphere was definitely not one of either callousness toward the people and active resentment of the jobs on one hand, nor of out-and-out fanaticism in devotion to the "revolution" on the other. Very frankly, this was one of the most encouraging things (if true) noted by the undersigned--in the long run, officials with this attitude appear a good deal more likely to provide a responsive, constructive government presence at the community level than are either time-servers, who do not care, or fanatics, who become disillusioned and quit.

Third, there was a virtually total absence of revolutionary rhetoric of almost any description; the provincial group was extremely short on overt tributes to the Panamanian "revolution", and its citations of Torrijos or other national leaders were mostly limited to observations on the local roles of the Corregimiento Representative and Junta Communal and allied subjects.

The undersigned infers from this that at least this group of officials have learned that this sort of attempted "politicization" of rural local communities simply does not work. Rather, the group was long on practicality and basic pointers--the approach of provincial government to the people may in fact be revolutionary, but it is not discussed in these terms at local level.

In short, the visit looked like a positive effort by the government to maintain the sort of interchange, responsiveness and government by consultation and consensus which is assumed in the Constitution of 1972. If this was merely one of many such visits, as it appears that it was, it is fair to infer that the "revolution" has in fact begun to acquire and maintain some of the institutional habits and practices which it needs in its government officials if the system on which it is based is to work. Naturally, much in this process depends on the nature of the officials involved. However, it has been observed that if the devil himself were to assume the godhead, he would be obliged by circumstances to assume certain aspects of divinity. If the Panamanian government is constructing a system where such continual contact between officials and its people is institutionalized, or rather bureaucratized, it will be surprising if the officials caught up in the process will be able to remain insensitive to the needs, desires and wishes of the people even if they might otherwise be inclined to do so. The degree to which this process of contact is, in fact, made a normal aspect of lower level Panamanian bureaucracy is one indicator of how really fundamental a change the present government has worked in the country.

CHECKLIST OF STATUTORY CRITERIA

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Programs Appropriation Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY.

1. FAA § 103; § 104; § 105;
§ 106; § 107. Is loan being made

a. for agriculture, rural development or nutrition;

The basic emphasis of this loan is to improve the capabilities of rural municipalities and to provide seed capital for those investments which offer the greatest benefits for the small farmer and the rural poor.

b. for population planning or health;

c. for education, public administration, or human resources development;

d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;

e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA § 201 (b) (5), (7) & (8); § 208

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(3) Increasing the public's role in the developmental process.

The GOP has officially designated 1975 as the "Year of Production" and is implementing a broad range of agricultural programs, including farm credit and land development and resettlement schemes towards this end. The GOP and the USAID are currently negotiating a \$6,200,000 loan which will directly improve food distribution and storage.

The climate for foreign and domestic private investment is favorable. Panama's Banking Law of 1970 and use of the U.S. dollar as legal tender, the complete freedom of international payments and exchange transactions have attracted many major international banks and enterprises and the presence of these companies has stimulated private investment.

The GOP continues to encourage active popular participation in the development process. This loan project will contribute directly to enabling rural municipalities to take the lead in providing for many of the socio-economic needs of their inhabitants.

(4) (a) Allocating available budgetary resources to development.

In 1974, gross domestic capital formation was 29.9% of GDP. The Central Government's 1973 investment expenditures were \$106 million (1974 data not available).

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11).

Panama's military expenditures have been a small percentage of the national budget. Panama has not intervened in the affairs of other free and independent nations.

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

The GOP is making these efforts. Annual compound growth rate of about 13% in Panama's Central Government budgetary revenues over 1969-1974 period. Total revenues rose from \$133 million in 1969 to an estimated \$268 million in 1974.

(6) Willing to contribute funds to the project or program.

The Mission has held discussions with personnel from the National Bank of Panama and Ministry of Planning and Economic Policy concerning counterpart contributions to the project. They agree on the scope of the project and the level of investment needed.

(7) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

The Government is clearly responding in an effective manner particularly in the areas of agriculture, health, nutrition, education and housing. This loan project will strengthen the GOP's equity-oriented regional development strategy.

B. Are above factors taken into account in the furnishing of the subject assistance?

Yes.

Treatment of U.S. Citizens and Firms.

3. FAA § 620 (c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

The government is not known to be indebted under these circumstances to any U.S. citizens for goods and services furnished or ordered.

4. FAA § 620 (e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No.

5. FAA § 620 (o); Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against any U.S. fishing vessel on account of its fishing activities in international waters,

Not applicable.

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by A.I.D. Administrator?

Relations with U.S. Government and Other Nations

6. FAA § 620 (a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba? Panama does not furnish assistance to Cuba. Application of this provision of section 620 (a) 3 of the FAA to Latin America has been waived.
7. FAA § 620 (b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? Yes, it has been so determined.
8. FAA § 620 (d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan? Not applicable
9. FAA § 620 (f). Is recipient country a Communist country? No.

10. FAA § 620 (i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No.

11. FAA § 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

No.

12. FAA § 620 (l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?

U.S. - Panama agreement relating to investment guarantees entered into force March 8, 1962.

13. FAA § 620 (n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?

No.

14. FAA § 620 (q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?

No.

15. FAA § 620 (c). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

16. FAA § 620 (u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operation? Year Budget?

Panama is not delinquent with respect to dues, assessments or other obligations to the U.N. for the purposes of Article 19 of the Charter.

17. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

No. The Government of Panama is actively cooperating with U. S. and international agencies in the noted areas.

18. FAA 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

Not applicable.

Military Expenditures

19. FAA s 620 (s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (FPC/RC).)
- Less than 1% 1975 budget is for military expenses.
Less than 1% of 1974 foreign exchange resources expended on military equipment.
No sophisticated weapons systems have been purchased.

Conditions of The Loan

General Soundness

20. FAA s 201 (d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and lending terms of the loan.
- The terms are both reasonable and consistent under the applicable U. S. and Panamanian laws.
21. FAA s 201 (b) (2); s 201 (e). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?
- The borrower has made an application for loan financed assistance in the activity and there have been assurance that funds will be used in an economically and technically sound manner.
22. FAA s 201 (b) (2). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
- There are reasonable prospects of repayment.

23. FAA s 201 (b) (1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

Financing for this activity from alternative sources is not available.

24. FAA s 611 (a) (1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?

Yes

25. FAA s 611 (a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?

The GOP has indicated its willingness to provide the legislation necessary for the effective execution of loan activities.

26. FAA s 611 (c). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Yes

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA s 207; s 113
Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs;

This loan will greatly enhance the capability of the rural municipalities to take the lead in providing for many of the socio-economic needs of their inhabitants in concert with national and regional development programs.

(e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.

28. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

This project cannot be executed as part of a regional project since it is designed to promote the development of rural areas wholly within Panama.

29. FAA § 201 (b) (4). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

This activity is directly supportive of the GOP's regional development and rural integration strategy which is to redress the economic and social inequalities among and within regions and to decentralize the process of development planning, decision making, and implementation.

30. FAA § 201 (b) (9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

This activity will help promote the development of the rural sector of Panama towards the objective of achieving self-sustaining growth.

31. FAA § 209; Information and conclusion whether assistance will encourage regional development programs.

While encouraging development within Panama, the project will not necessarily contribute to regional development programs.

32. FAA s 111. Discuss the extent to which the loan will strengthen the participation of urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.

This loan project will assist the rural municipalities to increase their investments in public infrastructure and services and productive enterprises which benefit particularly the small farmer and the rural poor.

33. FAA s 201 (F). If this is a project loan, describe how such project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development.

This loan project is directly supportive of the GOP's regional development strategy for economic and social development of the country.

34. FAA s 281 (a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.

This project will directly improve the administrative and financial capabilities of rural municipalities and increase their investments in public infrastructure and services and productive enterprises in response to local felt needs.

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

This project will address directly the needs and desires of the small farmer and rural poor. Technical assistance and training to improve the capabilities of rural municipalities will be a key component of the project.

36. FAA § 201 (b) (3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities?

This project will allow municipalities to greatly increase their investments in public infrastructure and productive enterprises.

37. FAA § 601 (a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

This project will improve the technical efficiency of industry, agriculture and commerce, by strengthening the regional integration and development of the country through the promotion of growth and service centers.

38. FAA § 619. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

Panama is not a newly independent country.

Loan's Effect on U.S. and A.I.D. Program

39. FAA § 201 (b) (6). Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities

This project will have no foreseeable adverse effects on the U. S. economy or areas of labor surplus. Assistance will be furnished in a manner consistent with improving the U. S. balance of payments position.

and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

40. FAA § 202 (a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

Procurement of goods and construction services and technical assistance will be primarily from private sources.

41. FAA § 601 (b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Private U.S. firms will manufacture most of the equipment financed by the loan.

42. FAA § 601 (d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

This project is a combination of capital and technical assistance. Services of U.S. professional firms will be utilized to the maximum extent practicable.

43. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and service financed by the loan.

Usual procedures for facilitating small businesses participation in AID financed procurement will be followed.

44. FAA § 620 (h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

45. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Technical assistance will be provided primarily from private sources.

Loan's Compliance with Specific Requirements

46. FAA § 110 (a); § 208 (a). In what manner has or will the recipient country provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made?

The Ministry of Planning and Economic Policy has agreed to the size of the project including the level of counterpart contributions needed which is in excess of 25%.

47. FAA § 112. Will loan be used to finance police training or related program in recipient country? No.
48. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? No.
49. FAA § 201 (b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year? Yes.
50. FAA § 201 (d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? Yes.
51. FAA § 201 (f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise? Private enterprise is expected to participate in the project through the provision of commodities and construction services.
52. FAA § 604 (a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? Commodity procurement will be limit to Panama, the United States and other 941 countries.

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53. FAA § 604 (b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?

No bulk commodity procurement is contemplated under this loan. Any bulk commodities which may be procured will be subject to the competitive bid procedure.

54. FAA § 604 (d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?

Yes.

55. FAA § 604 (e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

Not applicable.

56. FAA § 604 (f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?

This loan is not a program type loan. Nevertheless, AID will confirm that the commodities financed by the loan are suitable for the project and eligible for AID financing.

57. FAA § 608 (a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

The Loan Agreement will so require.

58. FAA s 611 (b); App. s 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?

This loan will not finance water or water-related land resource construction.

59. FAA s 611 (c). If contracts for construction are to be financed what provision will be made that they be let on a competitive basis to maximum extent practicable?

Construction contracts will be let on a competitive basis to the maximum extent practicable.

60. FAA s 612 (b); s 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services

Not applicable. The currency used in Panama is the dollar although it is denominated a "Balboa". There is no U. S. owned "local currency".

61. App. s 113. Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?

No.

62. FAA s 612 (d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

Not applicable.

63. FAA s 620 (g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
- No loan funds will be available for compensation for nationalized or expropriate property. The loan agreement will preclude such use of loan funds.
64. FAA s 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million?
- The aggregate value of assistance will not exceed \$100 million.
65. FAA s 636 (i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States or any guaranty of such transaction?
- No. No non-U.S. manufactured motor vehicle will be so financed under the loan.
66. App. s 103. Will any loan funds be used to pay pensions, etc., for military personnel?
- No.
67. App. s 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?
- Yes. A.I.D. will approve firms providing services for the project and financed under the loan, and the terms of any contracts under which such services are provided.
68. App. s 107. Will any loan funds be used to pay UN assessments?
- No. The Loan Agreement will preclude such use of loan funds.

69. App. s 108. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7).

Loan Agreement and implementation letters will so provide.

70. App. s 110. Will any of loan funds be used to carry out provisions of FAA s s 209 (d)?

No.

71. App. s. 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.

Subject loan was included in the A.I.D. FY-76 Congressional Presentation.

72. App. s 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress?

No loan funds will be used for publicity or propaganda purposes in the U.S.

73. NYA s 901. b; FAA s 640 C.

(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

The Loan Agreement will require that the Borrower comply with this provision.

(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

Yes, in accordance with Section 2.G.4 of AID Handbook No. 15, provided funds are made available by AID/W.

74. Section 30 and 31 of PL 93-189 (FAA of 1973). Will any part of the loan be used to finance directly or indirectly military or paramilitary operations by the U.S. or by foreign forces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand? No.
75. Section 37 of PL 93-189 (FAA of 1973); App. s. 111. Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam? No.
76. App. s 112. Will any of the funds appropriated or local currencies generated as a result of AID assistance be used for support of police or prison construction and administration in South Vietnam or for support of police training of South Vietnamese? No.
77. App. s 604. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals? No.