

COMMITTEE PRINT

REPORT OF THE STAFF SURVEY TEAM
OF THE
SUBCOMMITTEE FOR REVIEW OF THE
MUTUAL SECURITY PROGRAMS
ON
THE HOUSING INVESTMENT GUARANTY
PROGRAM AND THE ECONOMIC AID
PROGRAM IN PANAMA



NOVEMBER 19, 1963

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1963

26-519

BEST AVAILABLE COPY

SUBCOMMITTEE FOR REVIEW OF THE MUTUAL SECURITY PROGRAMS

THOMAS E. MORGAN, Pennsylvania, *Chairman*

CLEMENT J. ZABLOCKI, Wisconsin

FRANCES P. BOLTON, Ohio

OMAR BURLESON, Texas

E. ROSS ADAIR, Indiana

EDNA F. KELLY, New York

WILLIAM S. MAILLIARD, California

WAYNE L. HAYS, Ohio

PETER H. B. FRELINGHUYSEN, New Jersey

ROY J. BULLOCK, *Senior Staff Consultant*

ROBERT F. BRANDT, *Investigator-Consultant*

HARRY C. CROMER, *Staff Consultant*

HELEN C. MATTAS, *Staff Assistant*

FOREWORD

The Subcommittee for Review of the Mutual Security Programs of the Committee on Foreign Affairs maintains a staff which is continuously engaged in examining U.S. foreign assistance operations. A staff survey team, consisting of Mr. Robert F. Brandt, investigator-consultant, and Mr. Harry C. Cromer, staff consultant, was assigned to make a preliminary review of the foreign assistance program in Panama. On the basis of the information which was available in Washington, they were sent to Panama to make a comprehensive examination of the operation of the program.

The survey team brought back a number of photographs which provide convincing support for the statements made concerning various construction projects described in the report. It has not been possible to include this photographic evidence in the printed report.

The report has been made available to those responsible for administering the foreign assistance program in the belief that the information it contains will contribute to improving the effectiveness of foreign aid operations.

This is a report of the observations of the survey team and does not represent either an analysis by the subcommittee of the information it contains or a consensus of the subcommittee views. The subcommittee is convinced, however, by documentary and other evidence that the report is accurate.

THOMAS E. MORGAN, *Chairman.*

CONTENTS

	Page
Foreword.....	III
Summary of findings and conclusions.....	1
Lack of applicable policies and procedures in AID, Washington, has contributed to unsatisfactory conditions in U.S. housing investment guaranty program in Panama.....	1
Lack of coordination among agencies involved in dispensing U.S. aid funds weaken program.....	2
AID/Panama projects were not adequately reviewed due to insufficient qualified personnel and wasteful expenditures have resulted.....	2
Host country has created conditions not conducive to most effective utilization of AID funds.....	3
Emphasis on capital projects of a social development nature overtaxes Panamanian resources resulting in inadequate funds for maintenance and operation.....	4
Projects funded from special assistance grant slowed because of absence of initial planning.....	4
Housing programs.....	5
Investment guaranty.....	5
U.S.-financed housing construction programs.....	10
Housing financed from the Development Loan Fund.....	11
Housing financed from the Social Progress Trust Fund.....	12
Self-help housing.....	12
Road program.....	13
DLF loan for feeder roads.....	14
1. IBRD/DLF roads are "overbuilt".....	14
2. Two roads lack important connections.....	14
3. Completed roads lacked maintenance.....	15
4. Locations do not fit present rural development goals.....	15
Construction of the Tambo-Cocle Del Norte Road.....	16
Completion of plans and cost estimates.....	16
Agricultural development needs for this particular road highly questionable.....	17
Road constructed in 1962 is now impassable.....	17
Road construction training group.....	18
Questionable costs and training accomplishments.....	18
Mission did not control construction activities of the training group.....	19
National school construction program.....	19
Contract school construction program.....	19
Serious delays and other problems have been encountered in the contract school construction program.....	19
Contract schools are overdesigned in comparison with local needs and customs.....	20
Unfavorable sites were selected for some contract schools.....	21
Contract schools were not being permanently identified by an appropriate emblem.....	21
Community-aided rural school construction program.....	21
The community-aided rural school program is hampered by the lack of evidence of land title.....	22
Government of Panama contributions slow.....	22
Road maintenance group assisted local communities in self-help schools.....	22
Rural health.....	23
Integrated rural health facilities program.....	23
Mobile rural health program.....	23

HOUSING INVESTMENT GUARANTY PROGRAM AND ECONOMIC AID PROGRAM IN PANAMA

This is a report by a staff survey team of the Subcommittee for Review of the Mutual Security Programs on the operation of the investment guaranty program for housing and the economic aid program in Panama as administered by the Agency for International Development (AID). This review was conducted in Panama during the period October 7 through October 18 after preliminary discussions in the Washington office of AID.

Initially, the principal objective of the investigation was to examine allegations concerning the manner in which the AID was processing applications for investment guaranties of housing projects in Panama. When it became necessary to extend the investigation to Panama, the review was expanded, in accordance with instructions of the chairman, to include the overall operation of the U.S. assistance program in that country.

The review of the administration of the economic aid program centered about current projects and activities involving the major expenditure of funds, i.e., housing, roads, and school construction. Field work included actual observation of the progress of projects in these categories, examination of pertinent data and discussion with AID and Embassy officials, local businessmen, and with certain Panamanian officials directly concerned with the programs selected for review.

For fiscal years 1946-63, Panama has been the recipient of U.S. assistance as follows:

	<i>Millions</i>
Technical cooperation and development grants from AID and predecessor agencies.....	¹ \$29.1
Loans:	
ICA/AID	13.0
Development Loan Fund.....	7.8
Social Progress Trust Fund.....	10.4
Eximbank.....	19.0
Food for Peace.....	7.1
Other U.S. economic programs.....	² 23.0
Military assistance grants.....	1.7
Total.....	\$111.1

¹ Includes \$9.9 million supporting assistance grant in fiscal year 1962.

² Includes \$22 million for Inter-American highways.

SUMMARY OF FINDINGS AND CONCLUSIONS

Lack of applicable policies and procedures in AID, Washington, has contributed to unsatisfactory conditions in U.S. housing investment guaranty program in Panama

Since February 1962, AID, Washington, has been trying to put together a housing investment guaranty project in Panama, which as of the date of this report is still not finally approved. The basic cause

of this condition is a lack of policy and procedures as to the standards, guidelines, and other criteria governing the program.

AID became committed, without adequate evaluation, to the first application presented and, to the exclusion of others, has been trying since to develop it to a satisfactory degree of acceptability. There have been substantive changes in the financial arrangements and the mode of housing since the project was first proposed. Adverse Government criticism in Panama, country team opposition, handling by AID/Washington without informing other U.S. entities and personnel having a need to know, and charges by competitors of unfair treatment have all been factors tending to diminish the effectiveness of the project. The desirability of considering the drastically revised application as a continuation of the original application is open to serious question. By so doing, other currently pending applications, which may have merit, are continuing to be excluded from consideration.

Lack of coordination among agencies involved in dispensing U.S. aid funds weaken program

A major factor plaguing the administration of the program in Panama is the lack of coordination which prevails among agencies involved in our aid efforts. We have already mentioned that handling of a housing investment guaranty by AID/Washington without consulting with the U.S. Embassy and AID officials in Panama has seriously impeded the beneficial effects such a program might have had. Overruling by the former American Ambassador of recommendations of AID experts respecting a roadbuilding program has not been in the best interests of the overall program objective; namely, to construct feder roads and to train Panamanians in developing a capable maintenance organization of their own. This lack of coordination between the Embassy and the mission was still in evidence just before our visit in October. An Embassy message in September 1963, dealing with the controversial AID-administered housing investment guaranty program not only was not cleared with the mission prior to transmittal to Washington, but mission officials were unaware of its existence until we called attention to it. The relationship between the mission in Panama and Inter-American Development Bank representatives still seems to be of an "arm's length" nature in spite of instructions from the Department of State to missions abroad on the subject of coordination of lending procedures applicable to the Inter-American Development Bank. The mission went on record with AID/Washington on August 30, 1963, that the Inter-American Development Bank's program in Panama and its insistence on disbursing its funds on schedule, without regard to proper administration, has virtually negated AID's small-scale, soundly-drawn housing programs. A proposal for a new housing loan to Instituto de Vivienda y Urbanismo (IVU) from the Social Progress Trust Fund was unknown to mission personnel until we told them we had learned from the Bank's representative for Panama that it was being contemplated.

AID/Panama projects were not adequately reviewed due to insufficient qualified personnel and wasteful expenditures have resulted

Major deficiencies in the construction programs for schools, housing, and roads have occurred because of an insufficiency of qualified

AID field personnel to perform adequate and timely inspections. We were impressed with the aggressiveness with which some of these deficiencies have been identified by the present mission staff and their effort to gain control and obtain corrective action from the Government of Panama. Numerous instances were pointed out to us where the staff found schools overdesigned or badly located, roads built to standards in excess of needs, and housing erected but having major technical faults. However, at the time of our visit, a single general engineer assigned to the mission was attempting unsuccessfully to cover these various construction activities. Considering the number and varied locations of the agriculture, school, road, and health facilities being planned and constructed as well as other matters requiring engineering determinations, it does not seem possible to provide with one man the necessary coverage to give complete assurance that the projects are sound in conception and prosecution.

One illustration is that the sites selected for the schools remaining to be constructed under contract have not been examined by the mission's engineer despite the discovery that earlier sites were of questionable selection.

Just prior to our arrival, audit and end-use observations were carried out by local employees. The mission admits that the extent and quality of these past audit and end-use activities were unsatisfactory. An auditor has been recently assigned from the United States in an effort to alleviate this shortcoming.

Host country has created conditions not conducive to most effective utilization of AID funds

It is in U.S. interests to help Panama maintain stability through the development of a better balanced economy and to promote amicable relations necessary to any further Canal Zone negotiations. Panama's presidential campaign preceding elections in May 1964, will be the harbinger for renewed demands on the United States involving the canal. Possible issues include a Panamanian corridor through the Canal Zone connecting the two sections of the country, use of port facilities at Balboa and Cristobal, Canal Zone; zonal use of Panama postage stamps, expansion of Panamanian business enterprise in the Canal Zone, and return of land not in use.

The canal issue is a thorny one and the continuance of an amicable atmosphere is a real need. Notwithstanding, the successful implementation of our aid efforts is dependent on cooperation and assistance from Panama. There have been some shortcomings on this score in the past. The housing program has been impeded by inaction or weak administrative practices on the part of IVU, the Government housing agency. The construction program for the agriculture, schools, and integrated health facilities has been delayed because of the attempt to levy commodity import taxes on material brought in for the program. The road system is suffering from the lack of an adequate maintenance program, and several newly constructed feeder roads in high priority development areas lack important links. Despite this, Panama has recently authorized a \$2 million bond issue for a road in the virtually uninhabited barren section of the country, completely unrelated to the overall road program supported by AID. There seems to prevail also a decided lack of enthusiasm at official Government levels for expansion of industrial activities. As an illus-

tration, proposed Government participation in a development bank to encourage private enterprise was turned down by Panama's National Assembly. In the same vein, a study by our Bureau of Fisheries for development of a lobster fishing industry, which was reported to have shown promising results, is being terminated because of lack of interest on the part of Panama.

Emphasis on capital projects of a social development nature overtakes Panamanian resources resulting in inadequate funds for maintenance and operation

A very pertinent consideration in the level and nature of aid is the ability of the country to assume responsibility for capital projects once they are in being. Future U.S. assistance to Panama has been developed within the framework of the Government of Panama national development plan which has not yet been critically examined or evaluated by the mission. Preliminary review indicates that the Government of Panama plan is heavily weighted with social development projects and little real attention is given to activities which will improve the quality of governmental machinery responsible for carrying out many of the planned projects or improve the general basic administrative services, maintenance, and procurement.

The emphasis on social development which provides no governmental revenue as against economic development has created imbalances which have further strained Panama's already difficult financial situation. Panama has perennial difficulties in balancing its budget and it appears that the deficit for the fiscal year beginning March 1, 1963, may exceed \$5 million. Government revenues consistently are inadequate to meet the full governmental service requirements in a number of fields such as road maintenance and maintenance of public works, and this emphasis on social development will only aggravate the situation. The United States has provided funds for a multitude of projects involving school construction; improvement, and extension of the educational system, and the betterment of health, sanitation, and housing conditions which impose further requirements for skilled human resources for their operation and funds for maintenance. Additionally, the shift by AID from grants to loans to finance these projects will cause further increases in the Government of Panama budget for interest and amortization charges.

The United States made a \$5-million budgetary support loan in 1961 and a preliminary request has been recently received for another such loan.

Projects funded from special assistance grant slowed because of absence of initial planning

A special \$9.9 million grant from the President's contingency fund was made available to Panama in October 1961, designed to give initial impetus to a number of projects included in key sectors of Panama's 5-year investment program.

Implementation of the projects has been proceeding slowly, due primarily to the lack of specific plans at the time the funds were committed, organizational problems, and lack of coordination by Panamanian agencies in developing requirements to assure proper utilization. We made on-site inspections of national school construction projects, farm-to-market roads, aided self-help housing and integrated

health facilities comprising about two-thirds of the committed funds. A project breakdown showing the nature of the pipeline as of June 30, 1963, follows:

	Obligated	Expended	Unliquidated
National school construction.....	\$4,983,043	\$1,481,026	\$3,502,017
Aerial photography and mapping.....	1,000,000	245,890	754,110
Integrated rural health services.....	949,071	72,556	876,515
Agricultural development and production.....	495,847	124,093	371,754
Operation and maintenance training-road construction equipment.....	479,951	460,584	19,367
Public safety assistance.....	441,000	-----	441,000
Hydroelectric development studies.....	325,000	168,995	156,005
Water resources and electric power.....	281,154	147,746	133,408
Housing development program.....	249,812	35,656	214,156
Psychiatric hospitals design.....	200,000	74,959	125,041
Mineral resources survey.....	160,968	28,705	132,263
National economic planning studies.....	146,267	100,927	45,340
Colon sewerage system design.....	123,000	-----	123,000
Assistance to industrial development center.....	16,000	-----	16,000
Total.....	9,851,113	2,941,137	6,909,976
Deobligated.....	48,887	-----	-----
Total.....	9,900,000	-----	-----

Making funds available for projects not ready to be activated has resulted in a large pipeline of funds unexpended 2 years after obligation and only serves to provide fuel for critics of the program while substantially reducing the benefits derived from making these grants initially.

HOUSING PROGRAMS

Investment guaranty

Section 224 of the Foreign Assistance Act of 1961 authorizes guaranties of investment made by U.S. citizens or entities in self-liquidating pilot or demonstration private housing projects in Latin America. A Housing Guaranties Division in AID is responsible for screening and processing applications submitted pursuant to this provision of law, but to date they have been operating without benefit of written policies delineating the objectives, procedures, and other operating instructions necessary to implement the program. The committee was advised on May 1, 1963, by Mr. Seymour Peyser, Assistant Director Private Enterprise, that written policies were being developed. As of now, none have been issued although we are told that a draft has been recently presented to the Agency Director for approval.

The modus operandi has been to take the first application submitted for a guaranty in a country, subject it to intensive review prior to approval, excluding all other applications unless the original application is withdrawn or turns out to be unsatisfactory. Such a procedure might work to the advantage of the program's goals if the original application were sufficiently complete to warrant exclusive treatment and further processing by AID officials were limited to perfecting the package. It can work to the detriment of the program if the original submission is not sufficiently put together, if as the review proceeds the project becomes less attractive than when it was submitted, and if in the process possibly better applications are excluded. The project in Panama is one that has taken this latter course.

Twenty months after initial action by AID on the application which was selected to be the "chosen instrument," the guaranty in its final form is still not approved. During the course of the review, substantive changes occurred so that at the present time, in many ways, the project has considerably less merit than it appeared to have at the beginning. In the meantime, other applicants who filed were told that the program was oversubscribed and that their applications would not be reviewed except in the order of filing and then upon authorization by the Congress of an increase in the program. This has resulted in numerous complaints from Members of Congress, Panamanian Government officials, the Embassy/AID country team, and competing applicants. The proposed project has received a considerable amount of unfavorable publicity from the press in Panama and some in the United States.

The project under consideration is to construct 1,200 single-family homes to sell at \$8,333 on a 174-acre site within the city limits of Panama City, called Pan de Azucar. The Gilbane Construction Co. of Rhode Island is to be the prime contractor for construction of the houses. The loan on the \$10 million project—\$8,750,000—would be made by the Bakery & Confectionery Union and Amalgamated Lithographers of America at 5½ percent interest. AID's guaranty would cover \$8.1 million of the loan. The application which was approved by AID on July 29, 1963, provided that bonds of the Government of Panama (GOP) would constitute a dollar denominated obligation to the investors and that the Caja de Ahorras, an autonomous Panamanian Government bank, was to service the mortgages and remit the funds to the Government of Panama to pay off the bonds. The project is aimed at middle income group families.

The origin of the project goes back to a meeting in February 1962, between an attorney, Corcoran, representing the Gilbane Construction Co. and AID officials, at which time the attorney was given a fact sheet outlining the information required for a housing guaranty. Shortly thereafter, a letter to AID, dated March 20, 1962, from the president of the National Maritime Union (NMU) expressed interest in committing up to \$10 million of the Union's funds under appropriate guaranties in response to a request from the Government of Panama for a loan to finance the construction of low-cost houses in that country. In its early stages the project was considered as being a merging of the efforts and the moneys of the U.S. labor unions with the needs of the laborers of Panama to be financed through the sale of Panama Government bonds. An initial application for a guaranty was received by AID from an attorney, Kheel, representing NMU in July 1962, and from that date on, AID/Washington has concentrated its efforts in developing this so-called Kheel-Gilbane application.

During the period from July to the following May, much correspondence was generated and many meetings were held in an effort to bring the application to a point where it could be approved. AID's efforts in its behalf were almost entirely confined to the Washington office.

AID/Washington considers that it is necessary to get country team approval of housing guaranty projects before final approval. For this project, only after the country team had requested details of the application so as to be able to pass judgment on its merits, was the

material forwarded in May 1963. The acting mission director in Panama told us that this was the point when he considers that the mission was for the first time officially asked for its views. The Embassy/AID reply forwarded to Washington 1 month later did not concur or refuse concurrence on the proposal, but raised a number of questions on the project's merits, such as quality and price of house, decision to exclude all other pending applications from review, and on the general procedure followed by AID/Washington. Approval of the guaranty by AID on July 29, 1963, has not quelled criticism of the manner in which it was handled.

One of the principal criticisms voiced in Panama has been the authorization for a Panama bond issue to secure this particular loan. A special law passed by Panama's National Assembly and approved by the President in April 1963, authorized a \$10 million loan to be secured by dollar-dominated Government of Panama bonds. The effect of this loan would have been to make the Panamanian Government a full guarantor on a loan by the U.S. labor unions to Panama. The Government of Panama would hold the mortgages on the houses, and the U.S. housing guarantee would apply only if or when the Republic defaulted on the bonds. The record is unclear as to the extent AID/Washington made the bond issue a requirement for the guaranty. There is some indication that AID encouraged it. In July 1963, when GOP officials were having second thoughts as to the desirability of having committed themselves to such a loan, a joint State/AID message advised AID/Panama that neither legislation nor AID policy required an additional guaranty (in the form of bonds). It then went on to say that other Latin American governments found it convenient and desirable to provide such guaranty since it secures for the homeowners significantly lower carrying charges and attracts U.S. investment not otherwise forthcoming. The message noted that approval in Washington was predicated on valid commitments by the GOP, such as the guaranty and that if the commitment were withdrawn, the U.S. unions might not accept other arrangements. AID/Panama was asked to obtain written confirmation from Panama that it was going to stand by its commitment. AID/Washington approved the guaranty on July 29, 1963, without receiving the requested confirmation from Panama. When we arrived in Panama in October, we heard that the bond issue was being withdrawn, although the Government had not replied to the above request. We asked the American Charge d'Affaires to obtain, if he considered it appropriate, the Government's present position. On the last day of our visit, the President of the Republic advised the acting mission director by telephone that the bond issue guaranty was being withdrawn and also made the request that other pending housing applications be considered.

A probable reason for the apparent change in the mood of the Government of Panama relative to the bond issue was the turnaround in the project. When the bond issue was first proposed, it was to secure a loan from U.S. investors for low-cost housing for Panama's lower income groups. The original concept of the Kheel-Gilbane project was to provide this type of housing. After it became known by the public that the bond issue was for the purpose of guaranteeing a loan for upper middle income homes, wide criticism erupted in the press, and it became a political issue. The Government has now seen fit to reverse its stand and not issue the bonds which had previously been authorized.

Another questionable matter is the procedure followed in the selection of a fiduciary. The record shows that AID/Washington has maintained, since October 1962, as a condition of the guaranty that the Caja de Ahorros, an autonomous Panamanian Government financial institution of high repute, be the fiduciary for the project. A letter from AID, dated August 5, 1963, advising Kheel, the attorney, that the guaranty had been approved, stipulates agreement by the Caja de Ahorros to participate in the project. We obtained information in Panama that the Caja de Ahorros was never formally requested to be the fiduciary and, therefore, never officially considered it, and furthermore that the Caja could not legally be the fiduciary unless its Organic Act were revised. AID/Washington informs us that they did not know until September 19 that the Caja was not going to be the fiduciary. They contend that they relied on information obtained from the then Minister of Treasury, who was the president, ex officio, of the Caja; that administration of the loan was planned to be by the Caja. The revised proposal currently under consideration by AID/Washington omits all reference to the Caja and calls for the servicing of the mortgages to be carried out by the Panama Insurance Co. or a wholly owned subsidiary. Additionally, the Panama Insurance Co. is expected to be responsible for selling the houses and providing inspection service to assure that they are constructed in accordance with plans and specifications.

The record shows that the president of the Panama Insurance Co. actively participated in the promotion of the project from an early date. An executive of the company told us that the president had made 28 trips to Washington in its behalf. In July, when the initial application was approved, the Panama Insurance Co. was not mentioned in the proposal. We were told that the Panama Insurance Co. would handle all of the insurance for the project, including compulsory life insurance (a requirement not generally made part of the terms for other middle-income housing in Panama). The revised proposal now being studied by AID states only that the insuring company will be a local insurance company. Financial reports on the company indicate satisfactory firm credit experience, although it was noted that the company tends to speculate and caution should prevail in dealing with it. The president of the company is a well-known local promoter. Two local businesses promoted by him were in bad financial condition, and individuals and organizations that purchased stock from him were reported to have lost considerable amounts.

Probably the criticism that has been the most generally harmful to the project is the widespread publicity of the notion that the Kheel-Gilbane project had the inside track from the beginning and that other competitors were more or less brushed off. Charges of this nature were made by an unsuccessful applicant and circulated to a number of Members of Congress. GOP officials have urged that consideration be given to other applicants including a Panamanian company backed by a U.S. investment firm.

We found in the files a memorandum of a meeting of State and AID officials in Washington in June 1963, called to discuss the project, which acknowledges that the proposal was "preliminarily committed" to the Kheel-Gilbane interests. No other applications have been considered by AID although six other applicants have expressed varying degrees of interest, starting in the fall of 1962. At least two

applications were acknowledged to be substantially complete by March 1963, but all have been previously informed by AID along the same lines—that the funds were overcommitted and that other information would be sought later, if needed.

One application submitted by Mr. Felix Chapa has other ramifications. Mr. Chapa forwarded a preliminary application to AID in June 1962, enclosing a letter from the F. H. McGraw Co., signed by J. M. Morris, executive vice president. The letter from the company requested approval to construct low-cost housing (between \$4,000 and \$7,000) in Panama. Chapa's letter identifies McGraw as his cosponsor. In July 1962, the company's president notified AID that F. H. McGraw was no longer interested in the investment guaranty program in Panama. Mr. Morris in December joined Mr. Chapa in Panama to try to further develop their project. We are informed that the Housing Division of AID was aware of the trip prior to departure of these two individuals and, as far as we can ascertain, did nothing to discourage them. While in Panama, they obtained an option from the housing agency (IVU) to provide urbanized (streets, sewers, lights installed) land for the project and worked out other details with Panamanian housing officials. A letter from Morris in January 1963, informed AID/Washington of McGraw's proposition and requested to be kept informed on the status of the application. Some time after the first of the year, Morris left the company. Just before we left for Panama, the president of the McGraw Co. advised us by telephone, in response to a letter, that his company never had any real interest in the project in Panama, that Morris was no longer associated with the company, and that he had no complaint with the way AID had administered the program.

Chapa subsequently made efforts to substitute other sponsors but has been given no encouragement. Chapa also emphasized that he had an exclusive option for a housing guaranty program in Panama from IVU, which he stated to be the agency responsible in Panama for the guaranty program. We ascertained from official sources in Panama that it would not be legally possible for IVU to grant an exclusive option on land to anyone and that such land would have to be put up for public bid.

It was generally agreed in Panama and by some in Washington that AID/Washington deliberately withheld information from interested and responsible officials. AID/Washington processed the application without keeping other interested officials in Panama advised on the nature and status of the project. The acting mission director in Panama told us that he was not given the details of the project for review and comment until May 1963. Two leading banking officials in Panama advised us that they thought the adverse reaction in Panama was due to AID/Washington's unilateral handling of the project. When Gilbane discussed details of the project with the American Ambassador for the first time in May 1963, in Panama, an Embassy account of the conversation included a statement by Gilbane that—

I found the procedure followed in this matter very peculiar, including the fact that I was told that I and my associates should not contact the Embassy.

An Embassy query to Washington as to the reason for this instruction has remained unanswered. The memorandum of the meeting in

Washington in June 1963, between State and AID officials, referred to previously, also noted that the application was handled secretly by the Housing Division.

The Government of Panama has made a number of requests to have other applications reviewed before final approval. The President of Panama, in October 1963, when he advised the acting mission director of the decision not to issue the bonds, asked to have the other applications reviewed. We are advised that AID/Washington does not intend to put the other applications under review because it contends that to do so would delay the project many months and serve no useful purpose.

Questions of price, quality, and demand have risen relative to the project, and we have made no attempt to evaluate the technical considerations involved. A memorandum to the acting director from the mission's housing adviser in Panama, dated May 9, 1963, suggests that the price was high in relation to comparable housing. A memorandum dated June 5, 1963, from this same individual takes issue with a letter written in May to the American Ambassador from an architect for the Gilbane Co., justifying the higher price of the Gilbane house. As to demand, no survey has ever been made of the market for a concentrated 1,200-home project in this price class. In response to a Washington message in March 1963, for an estimate of demand for housing in this category, USAID/Panama advised, based on unverified figures that there was a total market demand for 1,500 units in this price class. Three banking officials in Panama of whom we inquired expressed doubt that 1,200 houses at this price in one area could be sold over a 2-year period. It was originally intended that the Government of Panama would share the market risk with the builder by guaranteeing the sale of the first 700 houses constructed. We understand that under the new submission, there will be no such guaranty. As a consequence, we were advised in Panama that the houses will be built and sold in 120-unit increments to avoid overdevelopment.

In the final analysis, the decision to proceed with the revised Kheel-Gilbane application might be expected to rest on whether U.S. interests are best served by going forward with the project. Although Embassy reports to Washington indicate that local politicians will make the most of the criticisms leveled at the project with possible adverse effects on the Alliance image and AID/Panama, the Chargé d'Affaires told us when we left Panama in October 1963, that the Embassy had not yet assessed the political aspects of the proposals now that the Government of Panama had withdrawn its participation.

U.S.-FINANCED HOUSING CONSTRUCTION PROGRAMS

In addition to the housing guaranty program, the United States is involved in assisting Panama in the construction of housing under three separate programs: (1) Mortgage financing for 635 medium-income houses being provided under a DLF loan entered into in February 1962; (2) a 3,000-unit low-cost housing project being constructed with a \$7.6 million loan from the Social Progress Trust Fund (SPTF); and (3) 295 self-help housing units being built with U.S. grant funds.

All three of these housing programs are substantially behind schedule and to a large extent delays appear to be the fault of the IVU, the

Panamanian Housing Institute, responsible for program implementation. The Inter-American Development Bank (IDB) made certain financing concessions for the low-cost housing program under the SPTF, which allowed a speedup of construction but at a sacrifice to orderly development. Construction under the DLF loan and the self-help program is lagging and no firm policy has been established by AID as to the most desirable course of action.

Housing financed from the Development Loan Fund

A loan agreement signed February 28, 1962, provides for a \$2.5 million loan to the Caja de Ahorros for the construction of 635 two- and three-bedroom units, priced at \$4,200 to \$5,300, respectively, in Villa Caceres, a Panama City suburb. Land development and construction of the houses are being carried out under the direction of IVU. Construction of the houses is far behind schedule. To date only 53 units have been completed, 126 additional units are now in the final state of completion and; urbanization has just begun for an additional 122. This leaves 334 units for which no urbanization has been started and as of the date of our visit in October, AID could not say when the work would be commenced.

The principal reason for the delay is attributed to the financial difficulties of the Housing Institute. The loan which is for mortgage financing is not disbursed until the houses are completed and sold. Therefore, the institute must finance the full cost of preparing the land—installation of streets, sewers, and lights—and the construction of the houses from its own resources.

The director of the institute, with whom we spoke, said that the institute did not have sufficient funds or credit to urbanize the required land and go forward with the construction of the houses under the program. He complained that the institute's contract with the Caja de Ahorros called for the institute to receive only \$4 a square meter of urbanized land and the cost to the institute was \$4.87. This could be one of the principal reasons why the institute is not anxious to go ahead with this program.

The mission reported that because of the institute's financial management practices, the Controller General of Panama stated that it was impossible to determine within a reasonable margin the financial status of the institute. It also reported that the contractors' association threatened in July 1963 to stop work unless overdue bills were paid and that the institute's credit standing among many local material suppliers had been lost.

We were told by the director of the institute that arrangements had been made with a local commercial bank for a \$200,000 revolving loan fund for interim construction financing. It is hoped that this will expedite the construction program.

As far as we were able to ascertain, selling the houses is not a major problem. Some delay has ensued because a portion of the houses have to be offered first to Canal Zone workers, who lack sufficient interest in buying them due largely to the fact that few of them have the 15-percent downpayment required. AID is not entirely blameless in the delays on the project because when the loan was approved, no construction schedule was established and thus little leverage exists for AID to press for more rapid accomplishment.

AID has not developed a firm position concerning the continuing failure to implement this loan. We were informed that AID/Washington is considering reducing the authorized amount of the loan if there are not more positive signs of action by May 1964. However, this has not been communicated to the GOP.

Housing financed from the Social Progress Trust Fund

A loan of \$7.6 million to IVU for financing construction of housing for low-income families was approved in August 1961, by the IDB. The principal project financed from this loan is a 3,000-unit development in San Miguelito on the outskirts of Panama City. The project is almost complete. As of August 30, 1963, the mission reported 1,700 units finished and the remainder in an advanced state of construction. We visited the area in October 1963, and observed that although most of the housing seemed to be completed and occupied, some of the streets were still being put through, and water and sewers were not completely hooked up.

The mission feels that the IDB has not exercised the controls necessary to complete the project in an orderly manner. Instead, it points out that the Bank's desire to disburse their money as scheduled (July 1963 extended to January 1964) has forced IVU into a stepped-up program which the institute cannot administer properly. Shoddy and wasteful practices were overlooked in the interest of speedy construction. Unlike AID, the Bank advanced mortgage funds to the housing institute as houses were completed and occupied even though streets, water, sewers, and lights were not in. Allowing these houses to be occupied before completing the urbanization, the mission maintains, has resulted in an extremely high percentage of defaults in mortgage payments in the area.

The mission believes that the overall housing program in Panama has not benefited from the uncoordinated actions of the IDB and AID in parceling out U.S. aid funds to a single Panamanian housing agency for various construction projects. IDB's large loan and the emphasis on getting the houses erected in a scheduled 2-year period has negated the smaller scale programs of AID aimed at producing solid housing institutions, procedures, and the formulation of a balanced housing program. Although the manner in which the IDB project has been allowed to go forward produces houses, it is counter to sound policy and overlooks technical and institutional development. This, the mission states, is in contrast to AID's program which, although more modest in terms of total money involved, is directed toward strengthening the Housing Institute and raising its technical capability, promoting better planning, organization, and management, and starting projects which are economically sound so that eventually Panama would be able to support its own housing program without foreign assistance.

Self-help housing

A program to demonstrate aided self-help housing construction techniques has been financed in the main by U.S. grant funds: \$100,000 in fiscal year 1961 for 137 units, and \$250,000 in fiscal year 1962 from supporting assistance for 158 units.

The first increment of 137 units was financed from funds provided in January 1961. As of October 1963, 97 units were completed, 15 units were underway, and 25 units were still in the planning stage and are

now scheduled for construction in April 1964. In April 1962, \$500,000 was made available from supporting assistance, but this amount was subsequently reduced to \$250,000 as there was little hope that the full amount could be effectively utilized. As of the present time, only 18 of the reduced number of 158 units have been completed. Plans for the balance remain indefinite.

The mission states that the Housing Institute has failed to do the necessary land preparation so that the houses may be built. The mission will not permit construction to go forward without urbanization. We believe that one of the principal reasons for the Housing Institute's failure to prosecute this joint program is because there is a basic difference of view between the mission and the Housing Institute as to the best method of self-help construction. AID believes that a group effort is more productive wherein a small number of future homeowners in a neighborhood work together in building their homes. As the houses are completed, they are awarded by lot to one of the group, so that it is not known at the time of construction which house will go to which owner. The director of the Housing Institute told us that he believes that it is better to have each future occupant work solely on his house. In view of the urgent need for low-cost housing in Panama, it is unfortunate that the differences between the Housing Institute and the mission cannot be expediently resolved and the program moved forward.

ROAD PROGRAM

The U.S. aid program has been assisting the Government of Panama (GOP) in its road improvement program, principally through the support of a road equipment use, repair and maintenance training group, and a development loan of \$5.3 million to construct feeder roads. This loan from the Development Loan Fund (DLF) was in support of a \$14.5 million feeder road project for which the International Bank for Reconstruction and Development (IBRD) also loaned \$7.2 million and the Government of Panama is contributing \$2.0 million. The DLF loan is being administered by the IBRD in conjunction with its loan.

The survey team made two field visits into the interior for the principal purpose of inspecting feeder roads being constructed with the proceeds of the DLF loan; farm-to-market roads constructed or improved as a result of the training group's activities; and a road ordered by the former American Ambassador which was intended to open up parts of the Coclé Province and provide access for the central provinces to the Atlantic Ocean. Our principal observations follow:

1. The IBRD/DLF roads are constructed to a much higher standard than necessary. The AID mission estimates that very adequate roads which would be comparable to those connecting roads being constructed with local funds could be built for less than half of the present average cost per mile.

2. Two DLF roads which penetrate the No. 1 priority area for intensive rural development lack essential links for their most efficient use. Construction of these connections is not planned until fiscal year 1965, at which time U.S. financing is proposed.

3. Several of the completed DLF roads were beginning to show signs of lack of maintenance. Also, two are not advantageously located to contribute to the present rural development goals.

4. We found that the former Ambassador had caused to be constructed approximately 20 miles of road through largely virgin territory in an attempt to open up certain areas and provide access to the Atlantic coast. Technical and economic studies of reasonably firm estimates of cost of the nature contemplated by section 611 of the Foreign Assistance Act were not made. As a result of failing to take these preliminary steps, the part constructed is largely impassable and would require extensive relocation and reconstruction to make it useful. The route selected would provide almost no economic benefits.

5. The road equipment use and maintenance training group did not maintain cost data on its construction activities. However, total United States and Government of Panama contributions would indicate that the per-mile cost for farm-to-market roads was considerably greater (\$11,000) than the \$5,000 estimated and used by the former Ambassador as a gage for his road to the Atlantic.

DLF loan for feeder roads

Originally the IBRD/DLF loans were to cover the cost of construction of 10 new roads totaling 304 kilometers. The Government of Panama contribution of \$2 million is to be used by the Ministry of Public Works for rehabilitating eight connecting roads totaling 108 kilometers. Of the 10 new roads to be built, 5 totaling 100 kilometers are completed, and 3 totaling 121 kilometers are more than 75 percent complete. The roads so far constructed have cost more than preconstruction estimates; therefore, two roads with a total length totaling 83 kilometers estimated to cost over \$5 million have been deferred.

Of the eight roads to be rehabilitated, three (27 kilometers) are completed, four (92 kilometers) are under construction, and one (19 kilometers) is not yet started.

Our observations follow:

1. *IBRD/DLF roads are "overbuilt."*—The roads we inspected are of a much higher quality than would appear necessary to serve as feeder roads which in some cases opened up virgin territory and will have only a minimum of traffic for many years. The roadbeds are 7.5 to 8.5 meters in width (24 to 27½ feet) depending upon whether the country is flat, rolling, or mountainous. Six of the eight roads will receive 6 meters (20 feet) of surface treatment (blacktopping); the remaining two are also scheduled for surfacing if sufficient funds remain upon completion of the present construction program.

Mission officials agree that these roads are built to a higher standard than necessary. They estimate that by reducing widths and making other economies very adequate all-weather feeder roads can be built for \$18,000 to \$20,000 a mile. Also these reduced standard roads would compare more favorably with the connecting links being rehabilitated with Government of Panama funds.

The eight roads being rehabilitated by the Government of Panama are an integral part of the IBRD/DLF road improvement program. They represent essential links of the newly constructed roads to the existing road system. We are told by mission officials that with respect to quality, the construction of these road connections is only about 50 percent to IBRD/DLF standards.

2. *Two roads lack important connections.*—Two of the roads which we inspected (Santa Domingo to Davila and El Tullido to Orillas del Rio) totaling 34 kilometers and built at a cost of \$1,226,000 failed to

connect up by a distance of 6.5 kilometers. In addition, there was no passable connection from Orillas del Rio to David, the third largest city in Panama, a distance of about 13 kilometers. We were told that it was originally anticipated that the Government of Panama would make these connections. However, the mission's program for fiscal year 1965 contains a proposed loan of \$4 million for all-weather farm-to-market road construction including the above missing connection.

The El Tullido to Orillas del Rio road was characterized during our stay as "beginning nowhere and ending nowhere." Although appropriate connections are lacking which would provide the most efficient access to the principal population centers, access to the road from the Inter-American Highway is provided by an existing road from Alanje. This access road appears to be of a much lower standard than the newly constructed IBRD/DLF road.

3. *Completed roads lacked maintenance.*—Both roads traveled were completed during the past year and showed signs of requiring maintenance. Shoulders were beginning to become overgrown with weeds, and gullies had formed in the road where heavy rains had washed down the paths in the gravel left by the traffic. We were told that maintenance was the responsibility of the Government of Panama but it lacks the capability to carry out any real maintenance activities; large amounts of their equipment are deadlined for lack of parts, and no funds are available with which to buy parts. We had a cursory view in David of one of the three divisional road equipment repair and maintenance shops of the Government of Panama. What was pointed out by AID engineers as deadlined equipment had the appearance of having been completely stripped for parts and more in the nature of scrap. It was explained that the equipment in use now is largely from a recent \$2 million Export-Import Bank loan made in fiscal year 1962, \$1,350,000 of which was for road building and maintenance equipment. The equipment purchased with the proceeds from a \$5.9 million IBRD loan in 1955 made to organize and equip a highway department, is deadlined or worn out. Further, the maintenance organization is politically motivated and the limited maintenance activities carried out are not on the basis of priority requirements but for political purposes.

4. *Locations do not fit present rural development goals.*—Two of the roads under construction do not penetrate or offer access to priority areas selected for intensive rural development. The Government of Panama and the United States have placed primary emphasis upon the coordinated development of the rural economy. Six priority areas representing the greatest potential for expanded and increased agricultural productivity were selected to receive the combined efforts of the various Government agencies to implement integrated development. This would include road construction, well-drilling, and waterworks installations, construction and operation of medical centers and health units, agricultural credit facilities, technical assistance in agriculture, new housing, schools, and the institution of various land reform measures. The areas selected in their order of priority are Alanje, Tonosi, Santa Rita, Sordinella, Montijo, and Toabré.

The Inter-American-El Cope Road under construction at a cost of \$1,169,000 skirts the outer fringes of Montijo area, the fifth priority area in Colce Province and the Ocu-Las Minas-Los Posos-Pese road—49 kilometers costing \$2,456,000, is located north of the second priority area.

Construction of the Tambo-Cocle del Norte Road

A major disagreement existed between the American Ambassador and officials of AID concerning the construction of a road linking the central provinces with the Atlantic. The Ambassador had initiated construction on a road beginning at Tambo and running down the mountains to Cocle del Norte at the mouth of the Cocle del Norte River on the Atlantic Ocean, a distance of about 75 kilometers, in 1962 using the road equipment operating, maintenance, and training group being financed with AID funds for the construction of farm-to-market roads. Construction was begun without making detailed economic or engineering feasibility studies, to establish the best alignment for the road, its economic feasibility, or the development of reasonably firm cost estimates. It was the Ambassador's contention that this road could be bulldozed through at a cost less than that of a detailed engineering study (\$300,000) which had been programmed. When completed, the road would have penetrated to the Atlantic at Cocle del Norte, a small village that appeared from the air to have about 80 houses. This would still have left a gap of 40 kilometers to Salud, the nearest point connected to Colon by passable roads. Therefore, representing neither a market center nor having port facilities or road connections, the selection of Cocle del Norte for the road's terminus was questionable.

Using a reconnaissance survey made in 1961, approximately 30 kilometers were bulldozed to a point, we were informed, where they could not cross the river.

AID officials believed that economic and engineering feasibility studies should be made before constructing any road linking the central province to the Atlantic and \$240,000 (later revised to \$300,000) was programmed in fiscal year 1962. The estimates of the cost of a road built to minimum standards ranged from \$1.5 million to \$4 million. Any precision as to cost or economic benefits of the proposed road were impossible without the result of a detailed feasibility study. In early 1962 AID initiated negotiations with an engineering firm and contract terms were discussed over a period of several months. Action was stopped when the Ambassador decided not to spend the money for engineering plans since a reconnaissance had been made and he considered that sufficient for construction.

Completion of plans and cost estimates

Section 611 of the Foreign Assistance Act prohibits agreements or grants for assistance in excess of \$100,000 until engineering, financial, and other plans, including a reasonably firm estimate of cost of the U.S. Government necessary to carry out the assistance have been completed.

According to the record, the Ambassador felt that this requirement was too restrictive (testimony of Mr. Moscoso, p. 2162, foreign operations appropriations for fiscal year 1964) and wanted the road done without economic or engineering studies.

One AID official reported that the Ambassador said he could see no reason why construction of the road could not be carried out as an "equipment operation and training program" and, therefore, it would not have to be called a road, thus, avoiding the requirements of section 611. The Ambassador's estimate of \$5,000 per mile to build this road was based on the estimated cost to construct a farm-to-market road

using the statistics developed by the road construction training group. The cost of constructing the proposed road using this estimate would have exceeded the \$100,000 limit specified by section 611 for making preliminary engineering, financial and other plans.

Agricultural development needs for this particular road highly questionable.

On February 28, 1963, U.S. AID mission engineers and agriculture personnel traveled over the passable part of the road which had been constructed in 1962. The agriculture officer of the mission made the following observations concerning the construction of this road.

The area observed along the Penonome—Rio Lura Road and Trail leads itself to two, more or less, distinct agricultural practices. These are (1) permanent agriculture, such as pastures, fruit trees, and gardens as observed between Penonome and the Y [Tambo], and (2) temporary agriculture, a rotation of one crop every 5 to 8 years by cutting secondary bush—as observed with very few exceptions—from the Y to the Rio Lura and apparently beyond.

The latter cultural practice is probably the only way to farm land of this nature, with such steep slopes and poor soil. This region, in the writer's opinion [Plano pathology adviser] does not lend itself to much better than for what it is being used at present. The subsistent farmer, on such land, may improve his situation some by the use of improved varieties of rice and corn but on the whole his economy will not greatly improve. Neither can such land ever support a large number of people because of the long rotational period required between crops.

In the writer's opinion, land pressure is not yet great enough in Panama to consider any great expenditure on the part of the Government to open up country with topography as observed between Tucue and Rio Lura.

There is evidence that the question of the area's lack of agricultural potential as well as problems on the need to determine the proper road alinement were brought to the attention of the Ambassador. In a memorandum an AID engineer for the Latin America area stated that in a visit with the Ambassador on February 15, 1963, he explained to the Ambassador that the proposed road alinement did not go through the best potential areas for settlement, and that the soils and land use capability were generally poor.

This engineer also states that he explained that a poor road alinement would magnify maintenance problems and produce many construction problems. Also, if the road were poorly designed and constructed, it might develop serious erosion and other maintenance problems. The Ambassador is reported to have responded that he knew the soils were good for agricultural development and he did not feel that the cost of an intensive investigation would be justified.

Road constructed in 1962 is now impassable

On October 14, 1963, the survey team, accompanied by mission officials, visited that part of the road begun by the Ambassador in 1962. Beginning at Tambo, we managed to travel during 2 hours about 1.5 miles in 4-wheel-drive jeeps outfitted with winches. Most of the

time we spent getting ourselves out of the first mudhole less than a mile from the start. We turned back at the first river crossing. Although no doubt we could have forded the river at this particular spot, this is the rainy season and mission personnel felt that if it rained while we were on this road, we might have to remain where we were. Considering the clay composition and very deep ruts in the road, this was a real possibility.

On February 28, 1963, which is during the dry season, AID/mission engineers and agricultural advisers were able to cover approximately 12 miles of the 20 miles that had been constructed. In their report they stated that—

owing to the washout of an extensive fill (made across a narrow ravine without culvert) we left our 4-wheel-drive jeep at mile 8.2—covering the remaining distance of 3.8 miles on foot. Another ravine fill approximately 0.3 of a mile from from the Rio Tucue was also washed out, making vehicular traffic impossible.

The road from Tambo to the third crossing of the Rio Tucue, a stretch of approximately 8.5 miles, which was constructed along meandering trails is in very poor condition. The grades are very steep with sections approximating 35 percent. There are 17 streambeds and small ravines requiring culverts. The Rio Toabre at mile 1.5 and the Rio Tucue at miles 4.2, 4.9, and 8.5 are fordable except during periods of extreme high waters. This entire section of the road will require extensive relocation to effect proper drainage, eliminate the excessive grades, and to avoid two of the Rio Tucue crossings as well as many ravine and small stream crossings.

In view of observations of the mission engineering and agriculture personnel as well as the team's as to the present condition of the road, serious question is raised with respect not only to the need for a road, but also whether or not a substantial part of the money spent in constructing what is now largely a muddy trail was not wasted.

Road construction training group

Another area in which the AID has assisted Panama in meeting its road needs is in farm-to-market road construction and rehabilitation. This project provides on-the-job training for equipment operators and mechanics while constructing at minimum cost all-weather roads to connect isolated communities with existing roads.

From the beginning of this program in late 1960, through fiscal year 1963, the United States made grants of \$1,515,000, in addition to U.S. surplus equipment; GOP contributions totaled \$528,000. Plans were to phase this project out at the end of fiscal year 1965 with proposed annual U.S. and GOP financing for fiscal year 1964 and 1965 of \$200,000 and \$100,000 respectively. We are informed that plans to continue this program past the currently available funds are canceled.

Questionable costs and training accomplishments

This group reports that 40 roads totaling 292 kilometers have been constructed or rehabilitated. With total costs of \$2,043,000, this

would indicate a per-mile cost for roads constructed or rehabilitated by this group in excess of \$11,000. A large part of the equipment used was acquired from U.S. surplus at negligible cost, therefore the cost statistic is somewhat understated as it does not include amortization of this equipment. An undetermined amount of the rehabilitation was at varying standards, i.e., in some cases the road required only scraping and crushed rock while in others it was a completely new road. The estimates of approximately \$5,000 a mile used to justify going forward with the Tambo-Cocle del Norte Road, using this training group for its construction, are questionable under these circumstances. We were told that this estimate of \$5,000 was based on a one-time cost study made on a section of a road that was constructed by the group as the group did not keep cost data on its activities.

It is reported that in the training part of this program a total of 110 persons have been enrolled, of which only 31 have been transferred to the GOP Ministry responsible for road maintenance. Of the remaining 79 trainees, 45 are still working with the road training group, several found jobs in private concerns, and the rest have been dismissed for various reasons.

Mission did not control construction activities of the training group

When the survey team was in Panama, this group was working to complete certain roads in Varaguas Province. Our inquiries disclosed that these, as well as other roads which were constructed or rehabilitated, were at the personal direction of the former Ambassador without consultation with the AID mission.

Mission officials informed us that upon completion of these roads they plan to have this group employed on higher priority activities which directly contribute to furthering AID-supported goals in the rural areas selected for intensive development.

NATIONAL SCHOOL CONSTRUCTION PROGRAM

The largest single grant project consists of a \$5 million school construction program. The funds were part of a \$9.9 million supporting assistance grant made to Panama in fiscal year 1962. Of the total funds, \$4,500,000 was allocated for construction of approximately 1,050 schoolroom units, consisting of 30 primary schools, 11 secondary schools, and 3 vocational schools under contracts with private construction firms. The remaining \$500,000 was for a community-aided rural school program in which local communities supply land, labor, and local materials where possible. The U.S. funds are used to provide building materials, school furnishings, equipment, skilled labor, and supervisory services.

Contract school construction program

Serious delays and other problems have been encountered in the contract school construction program

At the time the survey team arrived in Panama, the school construction program had been held up since February 1963, due to a Government of Panama legal interpretation concerning the right of building contractors on U.S. assistance projects to import construc-

tion materials free of duty. As a result, no new contracts were let and considerable construction delays were encountered on existing contracts.

Satisfactory resolution of this problem was not arrived at until October 10, 1963, when the Government of Panama advised the Embassy that contractors would be granted exoneration, without restriction, in accordance with the terms and conditions mentioned in the general agreement for technical and economic cooperation between the Government of Panama and the United States.

Contract schools are overdesigned in comparison with local needs and customs

As a result of physical inspection and a careful review of school designs, AID engineering personnel identified a number of largely esthetic or too-high quality construction features which could be eliminated in the remainder of the school construction program. Of the 31 schools planned, 14 schools valued at \$1,726,237 had already been contracted and were completed or under construction. Therefore, reductions were not possible. Savings totaling \$250,000 are expected from the proposed economies for the remaining 17 schools, having an estimated construction cost of \$2,399,000.

Although the school construction program has been underway since late 1961, a critical review of school designs for the purpose of effecting economies apparently did not take place until early 1963 when an examination was made by newly arrived personnel. Changes were communicated by the acting director to the architect and engineers in May and June 1963. Included among the changes were the—

1. Elimination of floor and wall tile in elementary schools;
2. Provision for a single coat of paint;
3. Reduction in the number of lighting fixtures and the elimination of conduit and wiring placed in the floors;
4. Substitution of corrugated asbestos roofing placed on simple timber trusses for concrete roof slabs over passages and walkways;
5. Substitution of mesh wire for aluminum louver-type windows with glass and insect screens in schools other than those in Panama City, Colon, and David;
6. Elimination of brick veneer walls, poured-in-place curved concrete stairwells, and other principally esthetic features in the Colon and Panama City schools.

We inspected two schools constructed under this program. In addition, we also visited an elementary school designed and constructed by the Government of Panama under its regular educational program. With the exception of tile, which is locally produced and appeared to be rather widely used, most of the other changes demanded by the mission were in line with local practices and design. We did observe that the building's roof was of a lightweight construction carried on wooden beams, whereas the U.S.-financed schools are poured concrete. Although the construction changes in the U.S. program do not include changes in the roof designs, the mission engineer estimated that considerable additional savings would be possible if the same local standards were applied. We were subsequently advised that alternative bids would be requested, covering concrete roofs and corrugated asbestos roofing carried on wooden beams.

Unfavorable sites were selected for some contract schools

The mission has discovered that some of the sites selected by the Government of Panama on which schools are being erected are of a very questionable choice and should not have been approved.

We visited the site of the most expensive school (Colegio Jose D. Moscote) costing \$405,522 which is surrounded on three sides by very deep open sewers. We were told that the filling operation required due to the location cost over \$30,000. Also, the major school population to be served was some distance away.

Another school we inspected costing \$190,000 had been erected on a lot which was just large enough for the building itself. This school, too, backed on an open sewer that required an extensive and expensive retaining wall. About 18 feet separated the front door of the school building from the street and private property, and a private residence, which appeared to be partly on school property was almost within reach from the window of one of the main rooms. This left no play area for the children.

In Colon, one site was scheduled to receive two separate but identical schools costing \$265,000 each. When the mission discovered this, it relocated one of the proposed schools to another area of Colon which better fitted the city's school needs.

We found that the sites which have been selected for those schools remaining to be constructed have not yet been examined by mission personnel for suitability. They explained that there is just one mission engineer available to make this review, and his many duties prevent him from doing a complete study at this time. They plan to go ahead and solicit bids on new schools, and the engineer will use the period (normally 45 days) until bid opening to visit the site. If adjustments are required, they will be made then. In view of the mission's experience to date on other site selections, it would appear imperative that no bid solicitation be made nor contract be awarded until the site has been examined as to its suitability for construction, location in relation to school population, and other matters.

Contract schools were not being permanently identified by an appropriate emblem

We observed during our visits to schools being constructed under contract that no permanent identification plaques were being provided. As a result of our inquiry the mission director advised us that this had been overlooked in the contract schools but that bronze plaques were being placed in the aided self-help schools which appropriately identified the project with the Alliance for Progress. He further advised that similar plaques will be placed in those contract schools which have been completed and plaques will be provided for all future schools constructed by contract.

Community-aided rural school construction program

Recognizing the need for better schools, especially in the rural areas, the United States and Panama jointly undertook to support a self-help program for school construction in these areas. Under the program, funds (U.S. \$781,000-GOP\$150,000) would be made available to provide building materials, equipment, skilled labor, school fur-

nishings, and supervisory services required for construction. Local communities supply land, labor and, where possible, local materials.

At October 16, 1963, 41 schools totaling 173 rooms had been finished, 21 schools totaling 92 rooms were under construction, and 13 schools with 68 rooms had not been started; in total, 75 schools with 333 rooms.

The community-aided rural school program is hampered by the lack of evidence of land title

At the present time, 11 schools have been constructed, 17 schools are under construction, and 9 are to be constructed for which the mission has not been furnished documentary evidence showing legal ownership of the land.

The problem of obtaining evidence of landownership has been a continuing one for the mission since the beginning of this program, and a number of letters have been exchanged with Panamanian Government officials. The mission has now established a firm position concerning this matter and so informed the Minister of Education by letter dated October 3, 1963.

Under this new policy, the Government of Panama was advised that further construction would be suspended of community-aided rural schools for which the mission does not have evidence of legal ownership of the land by the Ministry of Education. Additionally, no new schools are to be started until the mission receives evidence of landownership for the land on which the proposed buildings are to be constructed. For those schools which have been completed, the mission has requested that evidence of ownership be given within 30 days from October 3, 1963; otherwise it will be necessary to file a claim for refund of the estimated costs.

Government of Panama contributions slow

The financial plan for the community-aided rural schools provided that the United States would contribute \$781,000 and the Government of Panama would contribute \$150,000. To date, the United States has made available \$630,000 and the Government of Panama has made \$100,000 available. Under the agreement, Panama was to contribute the remaining \$50,000 in two increments of \$25,000 each on May 1 and July 1, 1963, after which the United States would contribute its remaining share.

At the time of our visit the GOP contributions due in May and July had not been deposited and the U.S. contribution was being held up accordingly. The mission advised the Government of Panama on October 10, 1963, that if the required deposit was not made, the remaining funds would be exhausted within 30 days.

Road maintenance group assisted local communities in self-help schools

We visited three schools supported under this program, one of which was completed. The completed school at Toabre, Penonome, is the largest single rural school being constructed. It consists of 12 rooms and required nearly 16 months to construct. The average construction time runs 5 to 7 months. We were told that in order to get this school completed, the road maintenance group used its equipment to grade the site and bring in sand and rock used in the construction.

Children living 4 to 5 kilometers away attend the school. With the apparent difficulties in construction, it is possible that this school was too large for the town and should have been constructed in smaller units among several settlements in the area.

We were also told that the road maintenance group assisted in the site preparation at another school (Rincon de las Palmas, Penonome) that we visited. This school was being completed under the U.S.-GOP-sponsored program. However, the local community representative said that this school had been planned and many of the cement blocks had been made a number of years before under a Ministry of Education program. Sixteen of the sixty-two schools completed or underway had been started by the community or the Ministry of Education under earlier programs.

RURAL HEALTH

Integrated rural health facilities program

A supporting assistance grant of \$950,000 (part of the \$9.9 million impact funds) was made to Panama for this health facilities program. Plans were to construct or remodel and equip 15 health facilities and drill 100 wells for clusters of rural houses in the central region. Because of upgrading of plans and changing requirements a lesser number of units (10) are now planned.

This program along with other U.S.-supported construction activities has been held up since early in calendar year 1963 when the right to import construction materials duty free was suspended by national authorities. This problem was not finally resolved until October 10, 1963. We inspected the first unit completed under this program (one other unit has been completed and four are underway) in Penonome. Our visit was late in the day, but our impressions were that the place appeared unclean. We later discussed this particular center with an American whose position and experience led us to give credence to his testimony.

He expressed his opinion that the facilities were dirty and that it was understaffed and difficult to get attention. He explained that he had taken a local resident in on an emergency call just the week before and waited 3 hours before receiving any attention.

Mobile rural health program

The mobile rural health program was initiated in February 1963. The United States provided \$192,000 to buy seven jeep-mounted ambulances, three water units, drugs and medical supplies. The Government of Panama contribution for fiscal year 1963 is \$23,000. The proposed program for fiscal year 1964 is \$233,000 from U.S. assistance and \$8,000 from the Government of Panama. The project is presently planned to be continued through fiscal year 1969 with total U.S. costs estimated at \$1,618,000.

We saw two of the six units in operation in use in outlying provinces during our stay. This program fills an important need in the public health service by bringing to isolated areas on a regular schedule simple medical care, immunizations, technical, and other assistance designed to fill health needs. It would seem, however, that the Govern-

ment of Panama should assume a larger share of the support for a project of this nature. The continuing U.S. assistance is largely to cover the cost of drugs, and to augment salaries of the drivers and medical officers, fuel, spare parts, travel costs. It would appear that costs of this nature, once the United States has supplied the initial equipment and medicine stocks, could be budgeted and paid for by the country. Unless the Government of Panama is able and willing gradually to assume financial responsibility, the U.S. investment will be wasted.

