

PD-AAV-254

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	DOCUMENT CODE 1
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2. COUNTRY/ENTITY PANAMA	3. PROJECT NUMBER 5250237N 49280 <input type="checkbox"/> 525-0282
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4. BUREAU/OFFICE LAC	A. Symbol	B. Code <input type="checkbox"/> 05	5. PROJECT TITLE (maximum 40 characters) <input type="checkbox"/> Strengthening Local Government
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6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION A. Initial FY <input type="checkbox"/> 8 <input type="checkbox"/> 8 B. Final FY <input type="checkbox"/> 9 <input type="checkbox"/> 2 C. PACD <input type="checkbox"/> 9 <input type="checkbox"/> 4	7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =) <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <th colspan="2">FUNDING SOURCE</th> <th>LIFE OF PROJECT</th> </tr> <tr> <td>A. AID</td> <td></td> <td>6,500</td> </tr> <tr> <td>B. Other U.S.</td> <td>1.</td> <td></td> </tr> <tr> <td></td> <td>2.</td> <td></td> </tr> <tr> <td>C. Host Country</td> <td></td> <td>2,200</td> </tr> <tr> <td>D. Other Donor(s)</td> <td></td> <td></td> </tr> <tr> <td colspan="2" style="text-align: center;">TOTAL</td> <td>8,700</td> </tr> </table>	FUNDING SOURCE		LIFE OF PROJECT	A. AID		6,500	B. Other U.S.	1.			2.		C. Host Country		2,200	D. Other Donor(s)			TOTAL		8,700
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TOTAL		8,700																				

8. PROPOSED BUDGET AID FUNDS (\$000)							
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SD	663	6,500		2,200		6,500	
(2)							
(3)							
(4)							
TOTALS				2,200		6,500	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 721 120 867	10. SECONDARY PURPOSE CODE
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11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code PVOU B. Amount 6,500	
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12. PROJECT PURPOSE (maximum 480 characters)

To improve the capacity of democratically elected local government to respond to the needs of constituents by improving leadership skills, providing municipal services more effectively and by expanding the local resource base.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: RHUDO: personnel and a Municipal Specialist (5 weeks); Economist (4 weeks); Urban Planner/Generalist (5 weeks); Institutional Development Specialist (4 weeks); Local Lawyer (3 weeks).

Funds
SDA-PD&S \$85,000

14. ORIGINATING OFFICE CLEARANCE	Signature: <i>Raymond F. Rifenburg</i> Title: Raymond F. Rifenburg, Acting, Director, USAID/Panama Date Signed: MM DD YY <input type="checkbox"/> 03 <input type="checkbox"/> 10 <input type="checkbox"/> 87	15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
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16. PROJECT DOCUMENT ACTION TAKEN <input type="checkbox"/> S = Suspended CA = Conditionally Approved <input type="checkbox"/> A = Approved DD = Decision Deferred <input type="checkbox"/> D = Disapproved	17. COMMENTS
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18. ACTION APPROVED BY	Signature: <i>Raymond F. Rifenburg</i> Title: Raymond F. Rifenburg, Acting, Director, USAID/Panama	19. ACTION REFERENCE 20. ACTION DATE MM DD YY <input type="checkbox"/> 03 <input type="checkbox"/> 10 <input type="checkbox"/> 87
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(Municipal Management Assessment carried out by RTI.)

1

PROJECT IDENTIFICATION DOCUMENT
STRENGTHENING LOCAL GOVERNMENT PROJECT

I. PROGRAM FACTORS

A. Background

Panama has a system of local government which was designed for grassroots participation: Elected local councils (juntas locales) represent the interests of neighborhoods; each of the 505 geo-political districts or corregimientos in the country have several of these neighborhood councils; a representative is elected from each corregimiento who chairs the community council (junta comunal) and who is also a member of the municipal council, chaired by the mayor, and the provincial council which is chaired by the governor. (See discussion of Structure and Functions of local government in Annex E, pages 4 through 7.)

This layered structure of local government does not necessarily result in responsive government since some councils and neighborhood committees are inactive. Also, local authorities do not always have the means to determine local priorities and have even less capacity to finance projects which respond to the needs of their constituents. The various layers of local government also diffuse decision making and weaken the autonomy of municipalities. For example, the provincial councils establish the priorities for how central government funds will be spent in the provinces. In the case of local revenues, the various representatives of corregimientos bid for resources which leads to a fragmented view of what a municipal government can and should do for the community as a whole.

B. Relationship to Panama's Priorities

Over the years, the GOP has tried to ensure that all geographic areas and all socio-economic groups would benefit from development efforts. The existing structure of local government with its various councils stems from equity concerns. The GOP has taken some steps to strengthen the role of local government. It participated in several projects undertaken with bilateral support in the 1970s and with international agencies as recently as 1982 to strengthen local service delivery. (See Section III.C. Relevant Experience with Similar Projects/Lessons Learned, and ANNEX C,A. Lessons Learned: Local Government Projects.)

The election of mayors in 1984 for the first time in forty years, and after sixteen years of military rule in Panama, offers a unique opportunity for elected local officials to play a more important role in government. Elected mayors and representatives form a group of democratically chosen leaders at the local level who can give new

vitality to local government. However, they lack a clear idea of what their roles should be and experience in managing municipal affairs. A recently conducted Municipal Management Assessment (See Annex E) shows that local officials are anxious to be more responsive to their constituents and to take on greater responsibility for service delivery. Local officials need assistance in developing their leadership capabilities and improving their financial and managerial capacity in order to respond more effectively to their constituents' needs.

C. Relationship to USAID Strategy

USAID/Panama recently initiated a strategy of urban development because of the country's high level of urbanization. As of 1980, half of Panama's population resided in urban areas. Population in urban areas has been growing at a rate of three percent a year, compared to 1.2 percent in rural areas. In 1985, USAID/Panama identified three possible urban interventions: 1) programs for altering migration flows into cities to control unemployment; 2) planning and management of the reverted canal lands as a means of promoting national development; and 3) strengthening local governments and increasing their service responsibilities.

The first approach was rejected as inappropriate because of the difficulty of controlling migration flows and because of doubts about its efficacy in reducing unemployment. Although the planning and management of reverted canal lands has a potentially favorable economic impact, the second intervention was rejected because of the political sensitivities of U.S. involvement in this kind of activity. The third activity - to strengthen local governments - is the objective of this Project because it meets U.S. government policy of promoting democratic institutions, holds the promise of improving the quality of life in small and medium-sized cities, and is supported in principle by the Government of Panama.

The Strengthening Local Government Project contributes to A.I.D.'s objectives in institution building, technology transfer, and democratization in developing countries by strengthening local leadership and its responsiveness to local needs, and by creating incentives for greater citizen participation in local decision-making. Training and technical assistance for municipalities will result in better planning and definition of priorities, and expanded local revenues and local capacity to provide services. Emphasis will be given in training and technical assistance to raising local elected officials' sensitivity and ability to respond to citizens' needs. The Project will help promote local participation in planning and decision-making in municipal development by working with the municipal councils composed of representatives of corregimientos, and neighborhood councils and committees. The Project will promote autonomy at the local level and decrease the reliance of municipalities on central government spending by generating local resources for local development efforts.

The Mission's Action Plan for FY 1987-1988 points out that effective participation in decision-making is crucial to promoting equitable development: "Our strategy is aimed at strengthening the capacity of democratically elected local governments to prepare them to participate to a greater extent in resolving local problems."

II. PROJECT DESCRIPTION

A. The Problem

In order to strengthen Panama's grassroots democratic institutions, i.e., neighborhood councils, community councils, and municipal councils, they will need to become involved in activities which address local priorities and which have a tangible impact on local conditions. Mayors and representatives of corregimientos will need to develop their capacity to participate more effectively in decisions affecting the quality of life within their cities, improve their ability to determine the level and composition of demand for local services and the priorities among competing demands, improve the quality of the services being provided, and increase their ability to obtain the necessary resources to pay for needed services.

Four major problems must be addressed before these objectives can be accomplished. These are the weak leadership at the municipal level, the limited existing municipal resource base, the low level of administrative and financial management capacity in municipalities, and the inefficient and ineffective delivery of services by municipalities.

1. Weak Leadership at the Municipal Level

The 1984 elections of mayors and representatives of corregimientos were, for the most part, held to be fair and representative. Expectations were raised within communities that elected officials would find solutions to local problems, such as building access roads from rural areas and constructing public markets, that the national government has not been able to address and in which it probably would not become heavily involved in the future.

The ability of mayors and representatives to fulfill these expectations, however, is severely limited. The lack of administrative experience of newly elected officials, the restricted role of municipalities in service provision, the lack of a long tradition of local government in Panama, and the lack of opportunities for mayors and representatives to exercise independent leadership in the past have all undermined their ability to take on a role as vigorous political and administrative leaders.

While municipal officials are willing to work to find solutions to local problems, they do not have access to the technical assistance, training, and information which would help them to do so,

including training in needs surveys and problem solving. The Ministry of Planning and Economic Policy's (MIPPE) training program for municipalities has been discontinued, and technical assistance from MIPPE and the Ministry of Government and Justice has been sporadic because of other concerns and priorities within those institutions.

In November 1985, the Panamanian Association for Inter-Municipal Cooperation (APCI) was reactivated after a 15 year hiatus. The purpose of this organization is to further communication among mayors and local representatives who form the 65 municipal councils. Over the past year, the Association has met seven times to discuss common problems and issues, but it still needs to develop a platform and a program of objectives for its activities. APCI's organizational structure and political orientation are appropriate for ad hoc activities, such as marshalling opposition to a proposed new law which would expand the authority of governors over municipal affairs. (The APCI was able to bring together 43 of 65 mayors in opposition to the proposed law.) The organization, however, is less apt for providing technical assistance to municipalities. The Association has not begun to collect dues so it has no budget and it has no permanent support staff which severely constrain its ability to serve in a support role. This role should be taken on by an autonomous technical institute, along the lines of IBAM in Brazil on a much reduced scale, if such an institute can be established in Panama.

2. Low Levels of Municipal Management Capacity

The potential of local government to respond to local needs is not now being realized because of poor organization and unprepared staff. The information base for decision-making is lacking, and a recent study by MIPPE indicates that most municipalities, and especially the smaller ones, have insufficient staff. Existing staff have not been trained to carry out their responsibilities effectively. Generally, personnel systems are inadequate; there are no formal job descriptions, skill requirements, or performance criteria.

In addition, most municipalities have incomplete rosters of taxpayers and outdated and incomplete business cadastres. Most municipalities lack effective means of exercising expenditure control and accountability. Many municipalities lack appropriate procedures for recruiting staff, handling collections, maintaining equipment and vehicles, and for carrying out other operations, such as land inventories and titling.

3. Inefficient and Ineffective Municipal Service Delivery

The central government provides almost all basic municipal services in Panama, although Law 52 confers on municipal councils a wide array of legal authorities: municipal councils can create mixed or public companies and provide directly or in concession the

public services currently provided by the central government. These services, however, have traditionally been provided through national ministries, and local governments do not have the capacity nor the inclination to take on responsibility for large infrastructure at this time. However, local governments do have an important function in providing supplementary services.

The officials elected in 1984 inherited operations that were run poorly or indifferently by appointed officials who preceded them. A revamping of those operations is needed. For instance, municipalities often operate public facilities such as markets and slaughterhouses, and although some of these enterprises break even or operate at a small profit, many are a drain on municipal revenues. The Project seeks to help municipalities to deliver services that they currently provide more efficiently and to expand in some areas such as road maintenance and the extension of water systems where these are appropriate and feasible.

4. Limited Resource Base and Failure to Mobilize Potentially Available Resources

In order to provide better services to their communities, municipalities need to expand their revenues (e.g. by improving fee collections). Also, both services and revenues will have to be expanded over the next few years to meet the needs of rapidly growing populations in intermediate cities like David and Chorrera.

Few local governments are tapping their full revenue potential. Existing laws confer on municipalities the authority to raise local revenues from indirect taxes on business establishments, the sale of land, and through licenses and fees. However, indirect taxes and user charges fall far short of the potential revenues that municipalities could collect. (See Annex E.) Also, municipalities have the authority to apply valorization or betterment levies to recuperate investments in new services from which private landowners benefit through increased property values. In general, however, they are unaware of this authority.

B. Project Goal and Purpose

The goal of this Project is to strengthen the democratic institutions within municipalities. It supports the objectives of the Jackson Plan to build up the capacity of democratic institutions through the decentralization of decision-making. The Project's purpose is to improve the capacity of democratically elected local governments to respond to the needs of constituents by improving leadership skills, providing municipal services more effectively and by expanding the local resource base.

C. Project Components

The three components of the Project are the following:

1. Developing Leadership and Strengthening the Role of Local Government

The Project will develop municipal leadership through the training of mayors and representatives of corregimientos in the appropriate roles and responsibilities of municipal officials, methods for ascertaining community needs, techniques for planning and developing priorities, and in municipal administration and management to make them technically as well as politically responsive to the needs of their constituents. Such training will involve study visits to the U.S. and other Latin American countries and short in-country courses. Annual seminars will be held on problem identification, issues related to inter-municipal cooperation, coordination between local and national government, and discussions of the changing role of local government in Panama; these activities are intended to promote communication and cooperation in municipal or district level planning and investment, and to provide a forum for new ideas and initiatives for local development. Training and intensive technical assistance will include methods by which elected officials can determine local priorities for services, e.g. needs surveys, and methods to encourage citizen participation in municipal development planning and decision-making.

The Project will support APCI in building its capacity to coordinate the exchange of information among members and to represent the interests of the membership before national government agencies and the National Assembly. The Project will also assess the possibility of establishing an independent technical office which will support the needs of municipal governments, and help to establish this office if it is deemed to be feasible.

Finally, the Project will finance studies on important policy concerns, e.g. legislative constraints for local resource generation, the feasibility of a municipal bond market for Panama, incentives or impediments to involvement of the private sector in municipal activities, and other topics which will help shape the role of municipal governments in the future. These studies will be coordinated with MIPPE's Department of Municipal Development.

2. Strengthening Administration and Improving Service Delivery

The Project will help local governments to strengthen their operations and administration of services by improving their personnel management and budgeting, maintenance of municipal equipment and infrastructure, and the efficiency of locally delivered services. Techniques for inventory of assets and completing tax rolls will be

developed, documented and disseminated, and short courses provided on these activities. This includes inventories of municipal lands, commercial establishments, public enterprise users, and other users of such client-based services as solid waste collection and disposal. Cross-referencing by owner and location and other forms of analysis will be demonstrated. Emphasis will be on simple manual or paper based systems appropriate to all but the largest municipalities. For the larger municipalities, micro-computer based tax roles can be developed and technical assistance provided in systems installation and utilization. Technical assistance and training will be provided to strengthen administrative and operational capacity in solid waste management, street maintenance, operation of public facilities, and financial management.

The activities which will support each of these components include: 1) training: targeted short term training of mayors, representatives of corregimientos, administrative staff, and service delivery personnel; training of trainers; and study visits for officials and staff; 2) technical assistance: short and long term advisors to carry out intensive demonstration activities in selected cities and policy-related research studies, to organize seminars and retreats, and to provide short-term TA on practical matters to cities requesting help; 3) technology transfer: installation of hardware and software systems, purchase and maintenance of equipment, etc; and 4) institutional development: support for APCI and investigation of the feasibility of creating a private institute for municipal support which could provide technical assistance and training to municipal staffs on a permanent basis.

Demonstration activities are an important part of the planned training. Pilot cities will be selected for intensive technical assistance which will provide on-the-job training to local officials and staffs in new and innovative techniques which address the problem areas described in Section II.A. The cities will be selected according to criteria developed during Project Paper design. The intensive technical assistance will be designed for each individual city. Local needs and priorities will be taken into account through a needs survey and consultation with community leaders. Training in the methodology for conducting needs surveys will be part of the technical assistance package. More generalized training programs will be developed on specific subjects for officials and personnel from all of the municipalities. Also, a small team of roving advisors will provide short-term technical assistance on an as needed basis.

3. Expanding Municipal Revenues

Municipalities have the potential for increasing their own revenues without the imposition of new taxes from five major sources: 1) improved collections of indirect taxes; 2) construction and operation of public facilities like markets; 3) promotion of user charges; 4) sale of

municipally owned land; and 5) valorization or betterment levies. The Project will focus on developing and improving the information systems used by municipal officials that will, in turn, help to collect, organize and analyze essential information about municipal revenues, service costs, and the relative efficiency of service provision. The information system will assist participating municipalities to estimate their revenue generation potential. Specific collection techniques for generating additional revenue and measuring their achievements against the identified potential also will be developed for each of the potential revenue sources.

Early Project efforts will focus on improving the local resource base, developing administrative capacity, and establishing priorities. As those efforts begin to have an impact, attention will turn to improving service delivery. Short training courses will be conducted and technical assistance provided to municipalities in financial management, accounting and expenditure control. Demonstrations of techniques for expanding municipal revenues will be carried out in selected municipalities and the results of these activities will be documented and disseminated to other municipalities through the APCI, along with case studies of on-going projects that provide learning opportunities for municipal staffs.

Most projects now being carried out by municipalities are very small, e.g. \$5,000 or less. Municipalities will need credit for their operations over the medium and long term if they are to take on larger projects with more significant impacts on local living conditions. For instance, extension of a water system could require an investment of \$100,000 or more, which is well over the current range of projects of most municipalities. Currently, municipalities are viewed as poor credit risks and have little if any access to credit for financing their investment activities. A second phase of the Project may be proposed after an evaluation in the fourth year to add a credit component for municipalities that have met specific performance criteria in terms of revenue generation and expenditure control. Local sources of credit, such as private banks, will be investigated at that time as well.

D. How The Project Will Work

1. Administrative Support

The Project will fund one long term advisor and an estimated 120 person months of short term advisors and trainers, provide resources for local and U.S. training courses for municipal officials and staffs, and fund studies which will support activities in the sector. The resident advisor will be responsible for development of programs and work plans, monitoring and coordinating the short term TA and training activities, coordinating with the Inter-American Development Bank as necessary (See Annex C), helping to design and contract policy studies, and acting as a liaison with USAID staff. The long term advisor should

be a specialist in municipal administration and finance, with experience in Latin America, fluent in Spanish.

Short term advisors will be required for delivering and evaluating the intensive technical assistance in selected cities, curriculum development for training programs, providing technical assistance in revenue generation and service areas, management information systems, business cadastral surveys, project feasibility studies, and personnel management.

2. Implementing Institutions

The Project team will work directly with municipalities. Three or four cities will be selected for intensive technical assistance each year, and in-country and other training and seminars will be organized for personnel from a larger number of cities. The Project will also work with the Association for Inter-Municipal Cooperation (APCI) to develop its capabilities in representing the interests of local government. Finally, the Project team will assist in the development of a technical municipal institute, if conditions permit. A.I.D. will provide a Program Grant to an appropriate U.S. institution which will manage the Project on behalf of the municipalities and the APCI.

The possibility of administering the Project through the central government was considered. Two central ministries have responsibilities for activities related to local government. MIPPE has an office of Municipal Development under its Urban Development Department that is responsible for coordinating municipal budget requests from provincial councils. Also, in the past, MIPPE had the responsibility for providing training for local officials. This training was provided in conjunction with the Ministry of Government and Justice which also has responsibilities for determining the boundaries of municipalities and corregimientos and addressing legal issues affecting local government.

The training for municipal officials has been discontinued as a regular program and currently these two ministries do not have staff available for these activities. Neither ministry has a mandate to strengthen local government and, while each may support aspects of the Project, neither is equipped to administer the Project as a whole. The Ministry of Government and Justice does not have experience in the administration of projects, and the staff in MIPPE has the responsibility of focusing on national investment strategies. Most important, central government institutions have not proven to be effective in carrying out projects for local government. (See Lessons Learned, Section III.C.)

3. Host Country Counterpart and Oversight

Model or demonstration activities will be developed both for improving fee collection and for making operations and service

delivery more efficient. The Project will provide technical personnel for these demonstrations, with the recipient municipality assuming 35 percent of costs, on average. Local contributions will be used for any capital investments which may be needed. (Efforts will be made to solicit a higher contribution, if possible.) The selection of cities and activities for intensive technical assistance will take into account local priorities for service extension or improvement, as well as willingness to provide counterpart financing. Municipal councils and community groups will participate in these activities to provide advice and guidance, and to increase accountability and oversight.

4. Evaluation Studies, Case Studies, and Audits

Since an important focus of the Project is the dissemination of information on municipal improvements, it is essential that all of the demonstration activities be documented and evaluated. An evaluation, series of case studies, financial audits and seminars for municipalities will be a part of the design of the intensive technical assistance in the selected cities.

The Project will be evaluated three times by the Mission. The first evaluation will be carried out at the end of the second year, and will focus on the effectiveness of the training and intensive technical assistance activities. The second evaluation will be conducted at the end of the fourth year and will determine whether a follow-on credit program is desirable. The final evaluation will be carried out at the end of the Project, in Year six.

III. FACTORS AFFECTING PROJECT SELECTION AND FURTHER DEVELOPMENT

A. Social Considerations

The Strengthening Local Government Project will have impacts on several beneficiary groups. Training, technical assistance and demonstration activities will aim at developing different groups of selected municipalities each year. The municipalities will be selected on the basis of need, appropriateness and capacity criteria that will be described in the Project Paper.

The municipal leadership development component, some of the training courses, and the retreats and study visits will improve the ability of elected mayors and representatives to carry out their responsibilities more efficiently and to respond more effectively to the needs of citizens in their communities. To the extent that democratic government depends on the willingness and ability of elected officials to respond to their constituents' needs, the successful implementation of this component will benefit all income and social groups in the municipalities.

The training and technical assistance components aim at improving the managerial and technical competence of municipal staff, whose abilities influence how effectively municipal services are delivered. Improvements in services are likely to benefit the larger and more capable municipalities in the early stages--simply because staff from these municipalities are able to take advantage of training and technical assistance opportunities more quickly. These improvements can serve as models for less complex approaches appropriate to small municipalities.

The demonstration activities should benefit low income families to a greater degree than high income families. One of the high priority projects in the municipality of David, for example, is a feeder road between the cabecera and the poorest corregimiento in the municipality. Implementation of this project would increase the access of lower income families to markets and to employment opportunities in the center of David. Also, any improvements in garbage collection are likely to benefit primarily lower income neighborhoods where services are now the least efficient. The Project's activities will both benefit lower income groups through improved services and provide resources that will benefit the citizenry at large.

B. Economic Considerations

Successful implementation of the Strengthening Local Government Project, by increasing the efficiency of municipal administration and expanding local revenues, will maintain or increase the supply of local services without making larger demands on the central government ministries that will be operating on tightly restricted budgets in the years ahead.

Preliminary estimates from the Municipal Management Assessment indicate that operating efficiencies in municipal facilities, and expanded local revenues from better collection of service charges and taxes, sales of municipal land, and other sources, could yield additional income to municipalities of from \$7.0 to \$8.0 million over their 1985 receipts. If municipalities were to achieve up to 80 percent collection efficiency, they could increase their revenues by \$8.0 to \$10.0 million. These estimates do not include the revenues that could be obtained from the use of valorization or betterment levies, a source that no municipality now uses but which is authorized by existing laws. Although all municipal income in 1985 represented only two percent of the total public sector budget, the absolute amounts of additional revenues that could be achieved through the Strengthening Local Government Project represent a large sum for most individual municipalities, on the order of at least 50 percent. It should be noted, however, that the effect on local revenues will be incremental, and the full impact of the Project should not be expected for at least three to four years.

The Project will involve the private sector, where possible, in training, technical assistance, and equipment procurement through contracts for these activities. Ways in which municipalities can contract for private sector assistance in service delivery and operations will be explored and potentially included among the demonstration activities.

C. Relevant Experience with Similar Projects/Lessons Learned

The guidance cable from Washington commenting on the Strengthening Local Government Project (State 291499) requested that attention be given to lessons learned from previous projects. Annex C provides a discussion of lessons that can be drawn from local government projects in Panama and in other A.I.D. assisted countries, as well as comments on the other issues raised in the cable.

The lessons learned from 63 local development projects worldwide indicate the need for strong technical assistance and extensive training to achieve local administrative autonomy. Earlier projects in Panama concentrated on lending or credit programs, including training as a secondary activity. The municipalities were not prepared to administer credit. Increasing the administrative capacity of municipalities before the initiation of a credit component requires a longer-term commitment than the average life of past A.I.D. projects. This six year project focuses exclusively on strengthening local institutions. A credit component will be considered only as a second phase if the results of an evaluation justify it. Also, the training was not adapted to the different needs of municipalities. This Project will take a very selective approach to working with municipalities and will tailor the training to the specific needs of each municipality. Past experience also indicates that local government strengthening projects which are implemented through central government ministries (e.g. URBE) are less successful than those which work directly with local officials. The Strengthening Local Government Project attempts to avoid these pitfalls; the Project concentrates on training through the "learning by doing" approach, with other types of seminars and training being used to complement this approach and to disseminate the lessons learned in pilot cities. Also, the Project will be implemented directly with local governments, with no central government intermediaries.

D. USAID Support Requirements and Capability

The Project will be managed by the Mission's Regional Housing and Urban Development Office (RHUDO). No additional staffing is required for this Project.

E. Project Budget and Financial Plan

The Project is to be conducted over a six year period. The following cost estimates for the Project are based on illustrative costs for similar activities. A breakdown of cost components and assumptions is contained in Annex B.

Table I
ESTIMATED COSTS and FINANCING PLAN BY INPUT (FY 88-94)
(US \$1,000)

<u>Input</u>	USAID	Counter- part	TOTALS
Training/TA	5,500	2,200	7,700
Policy Studies	75		75
Audits	180		180
Evaluation	90		90
Contingencies	<u>600</u>	<u> </u>	<u>600</u>
Project Total	<u>6,445</u>	<u>2,200</u>	<u>8,645</u>

F. Project Paper Development

Major issues that need to be addressed in the Project Paper are the following:

1. The level, form, and degree of central government commitment or support needed to make the Project feasible;
2. The ability and willingness of municipalities to make counterpart contributions to the Project; and
3. The role of central government ministries and agencies such as MIPPE and Gobierno y Justicia to take part in or support the Project.

As part of PP development, a retreat is planned to address broad issues affecting local government in Panama. This retreat is for municipal officials and APCI representatives and will address these issues: 1) the potential for enhancing administrative efficiency and increasing local revenues for services; 2) the role of the APCI in developing local autonomy; and 3) participation of local government in national investment decisions.

A team of four consultants is recommended to work with Mission staff and representatives of municipalities in the development of the retreat, the PP and supporting documentation. These consultants would include: a municipal specialist, an economist, a specialist in institutional development, and a generalist who will concentrate on drafting and editing the PP. An estimated \$70,000 will be required for these consultants. A local lawyer should be contracted to review legislation affecting municipalities, the Association, and the

requirements for establishing and autonomous institute for municipal support. An estimated \$15,000 will be required for this activity.

USAID will comply with the provisions of the Gray Amendment by exploring the possibilities of using an eligible firm to provide assistance during Project Paper development. In addition, USAID will consider during PP design the contracting of eligible firms to provide technical assistance and training activities during the course of the Project.

The schedule for PP preparation and approval is as follows:

	<u>Date</u>
- Mission Approval of PID	March, 1987
- Terms of Reference for retreats and PP development	April, 1987
- Retreat	June, 1987
- PP Field Work/Draft PP	July, 1987
- Mission review and Final PP	August, 1987
- Project Agreements	January, 1988

G. Initial Environmental Examination

The environmental analysis (See Annex D) concluded that among the potential areas of impact associated with the proposed Strengthening Local Government Project, no significant changes were expected to affect the human environment. In addition, the evaluation found a relatively high level of concern and sensitivity to development impacts. While GOP institutional capabilities in general are somewhat limited in the environmental control field, the Strengthening Local Government Project will offer the appropriate technical assistance to enable local participating municipalities to effectively implement the proposed actions with minimal environmental risks. Based on these findings, a Negative Determination was recommended.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 88 to FY 94
Total U.S. Funding 6.5 million
Date Prepared: 6 November 1986

Project Title & Number: Strengthening Local Government 525-0282

Page 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>-To strengthen the democratic institutions within municipalities.</p>	<p>Measures of Goal Achievement: (A-2)</p> <p>-Increased responsiveness of local officials to service the needs of the population.</p>	<p>(A-3)</p> <p>-AID evaluations -GOP statistics on public services.</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <p>-National political support exists for strengthening local government.</p>

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project
From FY 88 to FY 94
Total U.S. Funding 6.5 million
Date Prepared: 6 November 1987

410 1020-24 (11-78)
SUPPLEMENT 1

Project Title & Number: Strengthening Local Government 525-0282

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose: (B-1)</p> <p>To strengthen the capacity of democratically elected local governments to respond to the needs of constituents by improving leadership skills, expanding local resource bases and providing municipal services more effectively.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)</p> <ul style="list-style-type: none"> -Increase in local service provision. -Reduction in unit cost of municipal services provided. -Increase in local revenue generation. -Assessment of local needs in each city selected for demonstration activities. 	<p>(B-3)</p> <ul style="list-style-type: none"> -AID evaluations. -GOP statistics. -Municipal records. -Report on needs assessment for each city. 	<p>Assumptions for achieving purposes: (B-4)</p> <ul style="list-style-type: none"> -Local demand for expanded municipal responsibilities. Potential to expand own-source revenues. -Gaps exist in service provision or efficient implementation of current services.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: Strengthening Local Government 525-0282

Life of Project: 88 to FY 94
From FY 88 to FY 94
Total U.S. Funding: 6.5 million
Date Prepared: 6 NOVEMBER 1988

PAGE-3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	FEASIBILITY ISSUES
<p>Project Outputs: (C-1)</p> <ul style="list-style-type: none"> -Programs for development of leadership capabilities of mayors and representatives. -Institutional development of the Association of Inter-municipal Cooperation. -Information data base management and analysis systems for selected municipalities. -Administrative and operational capacity development of municipalities. -Mechanism developed to assess local needs. -Programs to assist municipalities to allocate existing resources in more efficient ways. -Programs to assist municipalities to expand their revenue bases. -Programs to assist municipalities to leverage their resources. -Performance criteria for determining a municipality's access to credit. 	<p>Magnitude of Outputs: (C-2)</p> <ul style="list-style-type: none"> -Installation and use of data base management and analysis programs in _____ municipalities. -APCI organization in place capable of representing the interests of municipalities in inter-institutional matters. -An estimated _____ courses, study towns, and retreats for mayors and/or representatives. -An estimated _____ short courses and long term training and pilot projects and case studies. -An estimated _____ short courses, long term training for _____ participants and _____ case studies and pilot demonstrations. -An estimated \$ _____ new local revenues are generated. -An estimated _____ local officials trained in needs assessment techniques. 	<p>(C-3)</p> <ul style="list-style-type: none"> -AID evaluations. -Training enrollments. -Records. -Contractor reports. -Municipal records. -Fiduciary records. -Publications -Case study publications. -Needs Assessment Reports. 	<p>Assumptions for achieving outputs: (C-4)</p> <ul style="list-style-type: none"> -Suitable trainers are available. -Municipal officials responsive to training opportunities. -Relevant national ministries willing to provide support for municipal strengthening. -Trained staff remain in place.

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PRELIMINARY ESTIMATES OF PROJECT COSTS
(000's of Dollars)

COMPONENTS	Yr 1		Yr 2		Yr 3		Yr 4		Yr 5		Yr 6		TOTAL		PROJECT TOTAL
	AID	LOCAL	AID	LOCAL	AID	LOCAL	AID	LOCAL	AID	LOCAL	AID	LOCAL	AID	LOCAL	
Long term Advisor	150		150		150		150		150		150		900		900
Short term Advisors/trainers	200		300		400		400		300		200		1,800		1,800
Support for Project, APCI, Municipal Inst.	250	225	250	325	250	375	250	425	250	375	250	275	1,500	2,000	3,500
Curriculum Development, courses & study visits	150	20	150	20	150	20	150	20	150	20	150	20	900	120	1,020
Annual Conferences	40	10	40	10	40	10	40	10	40	10	40	10	240	60	300
Retreats	25		25		25		25		25		25		150		150
TOTAL TA & TRAINING	815	255	915	355	1,015	405	1,015	455	915	405	815	305	5,490	2,180	7,670
Policy Studies	25		25		25								75		75
Audits	30		30		30		30		30		30		180		180
Evaluation			30				30				30		90		90
Contingencies	100		100		100		100		100		100		600		600
TOTAL OTHER	155		185		155		160		130		160		945		1,245
*****TOTAL	970	255	1,100	355	1,170	405	1,175	455	1,045	405	975	305	6,435	2,180	8,615

ASSUMPTIONS INCLUDED IN PRELIMINARY
COST ESTIMATES

Local Contributions for Demonstration Activities (average) and support for APCI	30-35%
Local Contributions for short-term training, seminars, etc.	10-12%
Local Contributions to Annual Conferences	50%
Contingencies (percentage of TA and training)	10%
Audits (percentage of TA and training)	3%
Short term Advisors per person month	\$15,000

APCI operations are assumed to be funded by the Association membership through a dues structure. The project will provide for technical assistance during the first year of operations to install accounting and management information systems and procedures.

LESSONS LEARNED: LOCAL GOVERNMENT PROJECTS
and
RESPONSES TO ISSUES RAISED IN STATE 291499:
STRENGTHENING LOCAL GOVERNMENT

A. LESSONS LEARNED: LOCAL GOVERNMENT PROJECTS

1. Experience with World-wide Projects

A.I.D. has a long history of assisting municipal governments in developing countries, and recent evaluations of that experience suggest that local government projects can play an important role, as part of a larger development strategy, in contributing to economic development goals, in supporting directly and indirectly, private sector development, and in eliciting wider participation in decision-making at the local level.^{1/} A.I.D.'s evaluation of 63 local development projects, including 25 in Latin America and the Caribbean, found that "the foundation for building local administrative autonomy and central government confidence in local governments is dependent on the development of local level human resource capacities." However, assistance to local governments should be selective, based on the importance of this element in the local development strategy, local resource endowment, and Mission portfolio.

Along with selectivity in the geographic coverage of projects, the evaluation also suggested that projects focus on one of the following: (°) urban-rural linkages; (2) energy-efficient cities; (3) improved planning of secondary cities experiencing rapid growth; and (4) sustained attention to financial planning, management, and administration to enable real autonomy to emerge and sustain itself, the last most closely reflecting the focus of the proposed Panama local government project. (op. cit. p.26)

The conclusion of the evaluation was that because of the permanence, legitimacy and proximity to the local population of municipalities, A.I.D. should use local government development projects to strengthen their capabilities whenever possible. Such projects, however, should avoid imposing a "blueprint" approach to project design that specifies too rigidly the expectations and outcomes of the project and overemphasizes physical production targets relative to local capacity building targets. Training local officials to carry out tasks in local governments should take precedence over reliance on technical assistance as the primary means of aid. Some of the weaknesses in past programs were the emphasis on didactic rather than practical training. "There was

seldom a conscious tactic of working out a plan of activities with the municipality, combining subproject planning and execution with general improvements in local administration. Technical assistance and training were not being offered in such areas as basic needs surveys, community relations and participation...or local personnel administration."
(op.cit. p. 3)

It should be noted that the evaluation also cautions that some conditions seem to indicate that A.I.D. should not become involved in local government development at all. It notes that "a government which (a) shows no interest in at least some elements of municipal reform, (b) will not look at its urban system selectively in regional/rural terms, and (c) will not encourage interagency dialogue...on ways to strengthen local government would not be a candidate for a sales job by AID for local development. It might, however, be a candidate for extended 'policy dialogue'." The role of the central government, if any, will have to be given careful consideration in Project Paper development for the Panama local government project.

2. Experience with Projects in Panama

Several projects related to the strengthening local government have been carried out in Panama in recent years. These projects have had mixed results.

a. The Rural Municipal Development Project was carried out from 1976 to 1981 through a USAID loan to the National Bank of Panama (BNP) and its Fund for Municipal Development (FODEM) to provide concessional subloans to rural municipalities for a wide range of projects including wholesale and retail markets, slaughterhouses, feeder roads, bridges, agro-industries, artisan industries, water supplies, transport facilities, and electric power generation and distribution. Although there were serious administrative problems in implementing the program, an evaluation carried out in 1982 concluded that the impact of the loans on rural municipalities was enormous: "they have gone from 'point zero' credit access to being borrowers of over \$5.4 million from others, virtually overnight."^{2/}

FODEM carried out an extensive training program for municipal officials and project participants in a wide variety of administrative and technical subjects. Over the five-year period, 388 general municipal management courses were offered for 1,084 staff members and 23 seminars were held for 433 municipal employees in technical aspects of project implementation. By 1982, at least 312 new jobs were created in rural municipalities as a result of the loans. The projects

undertaken by municipalities had mixed records of success as viable investments: most of the slaughterhouses that were constructed were improvements over the facilities they replaced, garbage collection services improved in some municipalities but not in others, half of the municipal industry projects were successful, and most of the market projects were failures. However, the evaluation concluded that "project loans, with very few exceptions, are of benefit to the municipalities and corregimientos."

Five major problems with the project included first, initial start-up difficulties and a slow rate of loan approvals because of a lack of procedures in FODEM and because of low levels of management capacity and information in the municipalities. Second, FODEM had to do most of the project preparation work due to low levels of municipal capacity to prepare projects. Third, FODEM was not sufficiently demanding in its analysis of technical, administrative and financial soundness of the projects. Fourth, the lack of data on municipalities and projects limited FODEM's capacity to monitor and supervise the loans. And fifth, weak coordination among central ministries and with the FODEM staff created administrative problems that undermined the effectiveness of the implementing agency.

The evaluation concluded that the Rural Municipal Development Program would have been much more successful with a better information system to monitor its loans and assess the capabilities of municipalities, and with a small team of mobile experts that could help municipal officials with on-site problems of implementation.

b. The Inter-American Development Bank (IDB) initiated another project with FODEM in 1979 which indicated that weaknesses in municipal government's management and financial capacity were obstacles to providing credit effectively. The credit program's success was undermined by limited capacity of municipalities to manage funds, high rates of turnover among skilled municipal personnel involved in credit activities, repudiation of municipal debts by newly elected mayors, ineffective management of loans made to Juntas Comunales for garbage trucks and slaughterhouse equipment, ineffectiveness of municipalities in collecting user charges and fees, and lack of resources in early stages of the project for central government agencies or FODEM to provide training and technical assistance to municipalities.

c. The URBE Project, a \$15.0 million loan to the GOP to invest in infrastructure that would create conditions conducive to private investment and employment generation in secondary cities was carried out in western Panama from 1978 to 1983. While URBE was not

directed specifically at local government—since resources were channeled through central ministries— it provides a third set of lessons for projects in secondary cities. The project had mixed results in attaining its broader goals of employment promotion and stimulating the development of secondary cities, but several components of the project were quite successful. Evaluations of the project concluded that "subprojects succeeded when they provided a direct and uncomplicated response to effective demand at the local level." Examples are found in the small business loan and housing subprojects, and in selected agro-industries. Conversely, those projects which ran afoul of bureaucratic complexities, or failed to capture community support (or both) took a very long time to complete, or were abandoned" ^{3/}. Examples of these are the industrial parks and transport terminals. It should be noted, however, that transport terminals were completed in several cities and are now functioning well.

Obstacles to more effective project implementation included lack of interagency coordination among central government ministries and agencies, lack of support from some key central government agencies for subprojects, and use of project funds for investments of special interest to each of the central government agencies, without regard to the project design. Other obstacles included over centralized planning and implementation of the project without due regard for the participation of municipal officials or beneficiaries; overly complex bureaucratic procedures at the central government level for the release and allocation of loan funds; failure of central government agencies to plan and schedule investments in infrastructure in proper sequence to support each other and to provide conditions conducive to private sector investment; and ineffective provision of technical assistance to the municipalities to prepare them to participate effectively in the planning and decision-making process.

FOOTNOTES

- 1/ US Agency for International Development, AID Assistance to Local Government: Experience and Issues. AID Program Evaluation Discussion Paper No. 17, Washington, 1983.
- 2/ The Pragma Corporation, Evaluation Study of Rural Municipal Development Program. Panama, 1982.
- 3/ Robert A. Hackenberg and Beverly H. Hackenberg, "Developing Intermediate Cities as Agro-Industrial Processing Centres: A Project in Western Panama," Regional Development Dialogue. Vol. 5 No. 1 (Spring, 1984): 74-104.

RESPONSE TO ISSUES RAISED IN STATE 291499: STRENGTHENING LOCAL GOVERNMENT

In its cable delegating approval authority to the field for the Municipal Strengthening Project, LAC/DR raised a number of concerns about the project. Each of these is noted below, with a discussion of the issue and citations of where it is addressed in the text of the PID.

Para. 4 QUOTE THE PROPOSED PROJECT CONTINUES TO RAISE CONCERNS IN AID/W, HOWEVER, BECAUSE OF EXPERIENCE WITH USAID'S RURAL MUNICIPAL DEVELOPMENT PROJECT IN THE 1970'S, THE IDB MUNICIPAL DEVELOPMENT PROJECT IN THE EARLY 1960S, OTHER USAID/PANAMA EFFORTS IN THE PUBLIC ADMINISTRATION AREA, AND SERIOUS PROBLEMS TYPICALLY ENCOUNTERED BY AID-FINANCED LOCAL GOVERNMENT DEVELOPMENT PROGRAMS WORLDWIDE. GIVEN THIS BACKGROUND, WE ENCOURAGE AN APPROACH WITH SPECIAL ATTENTION TO LESSONS LEARNED FROM PAST EXPERIENCE. UNQUOTE

In preparing the PID, an extensive review of the literature was conducted (See the Bibliography). The more important evaluations and reports are summarized in pages 1-3 of this Annex. The lessons learned have been incorporated into the preliminary project design, and are reflected in the appropriate sections of the PID.

Para. 5. QUOTE STRENGTHENING DEMOCRACY: THE PID/PP SHOULD EXPLAIN HOW THIS PROJECT WILL PROMOTE DEMOCRACY. THE PROJECT'S IMPACT ON DEMOCRACY MAY DEPEND SIGNIFICANTLY ON HOW LOCAL GOVERNMENTS ARE STRENGTHENED. STRENGTHENING LOCAL POLITICAL ELITES AND BUREAUCRACIES WOULD NOT BE SUFFICIENT. LOCAL GOVERNMENTS SHOULD HAVE A REASONABLE AMOUNT OF INDEPENDENCE FROM THE CENTRAL GOVERNMENT. ACTIVE CITIZEN PARTICIPATION WOULD BE IMPORTANT. PROJECT ANALYSIS SHOULD EXPLAIN HOW LOCAL GOVERNMENT WILL BE MADE BROADLY RESPONSIVE AND ACCOUNTABLE. THE ROLE OF MUNICIPAL COUNCILS AND/OR OTHER CITIZEN GROUPS IN LOCAL GOVERNMENT OPERATIONS/OVERSIGHT SHOULD BE DESCRIBED. UNQUOTE

Active citizen participation at the local level already exists in Panama, but it will be encouraged and channeled into activities with greater impact on local conditions. Independence from central government will be supported by enhancing the revenue generating capacity of local governments as well as their service delivery capacity (PID Section II.C). They will thus be able to serve an increasing portion of their population's needs without turning to the central government.

For democracy to thrive, it is also important to increase the accountability of the local governments. To assist in this, Citizens' Advisory Boards will be established in the cities which are selected for

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demonstration activities; there will also be training in needs surveys to determine citizen priorities for local services (PID Section II.C.1). The emphasis on leadership training for elected representatives to municipal councils will also help assure accountability and oversight (PID Section II.C.1).

Para. 6. QUOTE REFORMING LOCAL GOVERNMENT STRUCTURE: INSTITUTION BUILDING HAS FREQUENTLY BEEN INEFFECTIVE IN AID'S LOCAL GOVERNMENT PROJECTS. PARADOXICALLY, INSTITUTION BUILDING HAS TRADITIONALLY BEEN A KEY OBJECTIVE OF SUCH PROJECTS. TRAINING AND TECHNICAL ASSISTANCE HAVE USUALLY BEEN PROVIDED IN CRITICAL AREAS SUCH AS FINANCIAL ACCOUNTS AND PROCEDURES, MANAGEMENT AND ADMINISTRATION AND SOMETIMES IN PLANNING, PROJECT PLANNING AND REVENUE COLLECTION. ATTENTION HAS FREQUENTLY BEEN LACKING, HOWEVER, TO LESS OBVIOUS BUT FUNDAMENTAL ASPECTS SUCH AS: 1) THE LOCAL POLITICAL PROCESS, INCLUDING LOCAL ELECTIONS, THE ROLE AND COMPOSITION OF MUNICIPAL COUNCILS AND PARTICIPATION OF LOCAL CITIZENS AND INTEREST GROUPS; 2) GOVERNMENT PERSONNEL SYSTEMS INCLUDING JOB PERFORMANCE STANDARDS, HIRING AND FIRING, AND JOB SECURITY; 3) PROCEDURES TO CONTROL CORRUPTION, INCLUDING ACCOUNTABILITY SYSTEMS AND WAYS TO INVOLVE CONCERNED CITIZENS IN OVERSIGHT; 4) IDENTIFICATION OF COMMUNITY NEEDS THROUGH NEEDS SURVEYS OR OTHER MEANS AND 5) REVISION OF MUNICIPAL CODES AS THEY RELATE TO THESE AREAS. IN APPRAISING THE NEEDS AND POSSIBILITIES FOR STRUCTURAL REFORMS IN LOCAL GOVERNMENT, WE SUGGEST THE USE OF KEY INFORMANT INTERVIEWS TO GAIN AN INFORMAL PICTURE OF LOCAL GOVERNMENT PERFORMANCE AND PROBLEMS -- TO SUPPLEMENT ANALYSIS OF FORMAL ORGANIZATIONAL RELATIONSHIPS. UNQUOTE

These issues are addressed in the PID in a number of ways. For example, instituting new local government personnel systems and developing and implementing management information systems are prime candidates for project demonstration activities. Both would result in improved efficiency, control of corruption and enhanced accountability. Community needs surveys are also planned, as suggested in the cable. "Key informant interviews" were conducted during the Municipal Management Assessment that was completed prior to preparing the PID (Annex E); additional interviews will be conducted as the project design is refined for the PP. The local political process will be strengthened through the training of municipal council members, the support for citizens' advisory boards, and related activities. To the extent that municipal codes are determined to be impediments to local government reforms, project resources will be directed toward revising them.

Para. 7. QUOTE CREDIT: (A) DELAY IN BEGINNING A CREDIT COMPONENT COULD BE BENEFICIAL BY ALLOWING MORE ATTENTION TO THE CRITICAL TA AND TRAINING COMPONENT. AID EVALUATIONS ELSEWHERE HAVE CONCLUDED THAT THE PRESSURE TO DISBURSE LOANS, AND TO DESIGN AND IMPLEMENT THE RELATED LOCAL PROJECTS,

HAS PREEMPTED THE TRANSFER OF SKILLS NEEDED BY LOCAL GOVERNMENTS TO PLAN, FINANCE, SUPERVISE AND MAINTAIN SUCH LOCAL PROJECTS. THIS FINDING SUPPORTS USAID INTENTIONS TO EXPAND LOCAL GOVERNMENT CAPABILITIES AND RESOURCES INCREMENTALLY. (REF C, 2.B) SMALL INCREASES IN LOCAL GOVERNMENT RESOURCES WOULD PROBABLY BE SUFFICIENT, INITIALLY, TO TEST AND DEMONSTRATE LOCAL GOVERNMENT CAPABILITY TO MANAGE MORE AMBITIOUS PROJECTS (WITH EXTERNAL FUNDS).

(B) WE RECOGNIZE, HOWEVER, THAT USAID'S LEVERAGE TO EFFECT MEANINGFUL CHANGES IN GOP POLICY VIS A VIS LOCAL GOVERNMENT STRENGTHENING WOULD BE REDUCED WITHOUT THE PROSPECT THAT AID COULD EVENTUALLY CONTRIBUTE RESOURCES TO MUNICIPAL GOVERNMENTS. THUS, YOU MAY WANT TO INCLUDE REFERENCE IN PROJECT DOCUMENTS, PARTICULARLY THE PROJECT DESCRIPTION IN ANNEX 1 OF THE PROJECT AGREEMENT, TO PLANS FOR SUCH FUNDING IN THE FUTURE.

(C) ALTERNATIVE FUNDING APPROACHES, SUCH AS A SMALL GRANTS PROGRAM TO THE MUNICIPALITIES, WITH THE GOP AS BORROWER OF AID FUNDS, SHOULD ALSO BE CONSIDERED. GRANTS MIGHT BE EASIER TO MANAGE, HELP LEVERAGE A GOP GRANTS PROGRAM TO MUNICIPALITIES (REVENUE SHARING), LEVERAGE LOCAL GOVERNMENT CONTRIBUTIONS, AND PERMIT THE USE OF ANY FEES OR REVENUES TO SUSTAIN AND EXPAND THE LOCAL PROGRAM. PPC SUGGESTS THE MISSION LOOK AT USAID/EGYPT'S BASIC VILLAGE SERVICES PROJECT (263-0161.2).

(D) PERHAPS PROJECT CONSULTANTS COULD HELP DESIGN THIS COMPONENT IN YEAR ONE BASED ON DETAILED KNOWLEDGE OF SOME MUNICIPALITIES, E.G., LOCAL GOVERNMENT CAPACITIES, PRIORITY LOCAL NEEDS, AND LOCAL AND EXTERNAL RESOURCES NEEDED TO ADDRESS THE NEEDS. UNQUOTE

USAID/Panama agrees that it is premature to include a credit component in this Strengthening Local Government Project. It will take some time for the TA and training to take effect and to make municipalities credit worthy. An evaluation will be conducted in the fourth year of the Project, at which time the feasibility and desirability of a credit component will be addressed. (See Section C.3.) Credit support would be provided as a second phase to this Project.

Para. 8. QUOTE DECENTRALIZATION: (A) WE AGREE WITH THE MISSION ABOUT THE IMPORTANCE OF THE QUOTE TWO KEY POLICY ISSUES UNQUOTE MENTIONED IN REF A, ITEM A, I.E., THE NEED TO INCREASE THE LIMITED AUTHORITIES OF LOCAL GOVERNMENTS AND TO INCREASE RESOURCES AVAILABLE TO THEM WITHOUT INCREASING THE OVERALL TAX STRUCTURE. GENERAL EVALUATIONS POINT TO AMBIVALENT OR CAUTIOUS CENTRAL GOVERNMENT COMMITMENT TO DECENTRALIZATION AS A PRIMARY CAUSE FOR FAILURE IN THIS KIND OF PROGRAM. REF A NOTES THAT QUOTE FURTHER ANALYSIS IS NEEDED TO DETERMINE IF THESE TWO POLICY ISSUES SHOULD BE DIRECTLY TIED TO THE PROJECT UNQUOTE.

(B) WE BEGIN WITH A PRESUMPTION OF THE NEED FOR IMPORTANT POLICY SHIFTS IN BOTH THESE AREAS, IF THE PROJECT IS TO SUCCEED. REF A, ITEM 5, SAYS THAT LOCAL OFFICIALS DO NOT WANT TO REPLACE NATIONAL GOVERNMENT AGENCIES,

ONLY TO PROVIDE ADDITIONAL SERVICES. WE FEEL, HOWEVER, THERE MUST BE SIGNIFICANT DEVOLUTION OF CENTRAL GOVERNMENT RESPONSIBILITIES AND BUDGET. IN THE SELECTED MUNICIPALITIES WHERE PROJECT ACTIVITIES BEGIN, THE MISSION SHOULD EMPHASIZE WITH THE GOP THE NEED TO DEVOLVE RESPONSIBILITIES AND BUDGET ON A SCHEDULE, TO PERMIT INCREMENTAL INCREASE IN LOCAL GOVERNMENT ACTIVITIES AND CAPABILITIES. UNQUOTE

This Project has been designed with the objective of devolution of responsibilities in mind, but also with an awareness, based on past experience, that devolution in the absence of sufficient local capacity will inevitably fail. The goal of this project is to create the necessary local capacity, through training, technical assistance and demonstration activities, to assure that such decentralization can ultimately be successful.

Para. 9. QUOTE LOCAL GOVERNMENT INVESTMENTS: REF A BRIEFLY ATTRIBUTES THE FAILURE OF THE PREVIOUS AID-FUNDED MUNICIPAL DEVELOPMENT FUND TO SEVERAL CAUSES INCLUDING QUOTE MISGUIDED INVESTMENTS UNQUOTE. WE WOULD EXPECT THE PP OR SUBSEQUENT PP AMENDMENT TO EXPLAIN HOW TO MINIMIZE SUCH MISGUIDED INVESTMENTS UNDER A FUTURE CREDIT OR GRANT FUND. UNQUOTE

The PID (Section II.C.1.d) envisions designing the credit program after an interim evaluation of the capacity building efforts. This evaluation, in the fourth year, will assess, among other things, the potential for local governments to utilize a credit program effectively. At that time, a project amendment or new PP will be prepared to explore alternative models for the extension of credit to local governments.

Para. 10. QUOTE IDB PROJECT: AS NOTED IN REF C, ITEM 2D, THE IDB IS PLANNING A NEW APPROACH TO THE PROVISION OF BASIC SERVICES AND PRODUCTIVE ENTERPRISES THROUGH LOCAL GOVERNMENTS. AS DESCRIBED BRIEFLY TO GARY ADAMS, LAC/DR, BY WESTON WILLIAMS, IDB DIVISION CHIEF FOR PANAMA AND MEXICO, THE CONCEPT INVOLVES WORKING IN SMALL RURAL COMMUNITIES, WITH POPULATIONS AS FEW AS 500 PERSONS. THE IDB PROJECT WOULD INCLUDE RELIANCE ON COMMUNITY SELF-HELP IN CONSTRUCTING RURAL INFRASTRUCTURE (ROADS, SCHOOLS, POTABLE WATER) AND PROVIDING SERVICES (GARBAGE ETC). THE CONCEPT SOUNDS MORE LIKE A TRADITIONAL COMMUNITY-DEVELOPMENT PROJECT RATHER THAN THE KIND OF PROGRAM AID IS PROPOSING FOR THE MORE DYNAMIC (PRESUMABLY LARGER) MUNICIPALITIES. DESPITE APPARENT DIFFERENCES BETWEEN THE PROPOSED IDB AND AID PROJECTS IN APPROACH AND THE SCALE OF THE

COMMUNITIES TO BE AFFECTED, WE ENCOURAGE USAID PLANS FOR CLOSE AID-IDB COORDINATION. BOTH PROJECTS WILL BE DESIGNED AROUND THE SAME TIME BASED ON PERCEPTIONS OF WHAT WAS RIGHT OR WRONG WITH PAST MUNICIPAL GOVERNMENT PROJECTS IN PANAMA. BOTH WILL REQUIRE LEGAL AND POLICY CHANGES WHICH SHOULD BE CONSISTENT AND MUTUALLY SUPPORTING. ALSO, IF THE AID PROJECT IS TO EXPAND BEYOND THE RELATIVELY FEW LARGE SECONDARY CITIES IN PANAMA, THEN THE SIZE OF COMMUNITY AFFECTED WOULD BECOME MUCH CLOSER TO THE COMMUNITY SIZE ADDRESSED BY THE IDB. UNQUOTE

The potential for cooperation with the IDB rural communities project has been recognized. It will be the responsibility of the long term advisor to establish regular communications with the IDB project.

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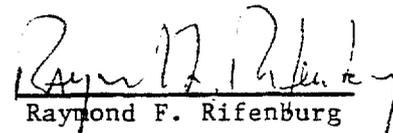
- INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Panama
Project Title: Strengthening Local Government
Funding: FY 88 U.S. \$6.5 (G)
Local \$2.2
Life of Project: Six years (FY 88-94)
IEE Prepared by: Jesús Sáiz
Environmental Officer
USAID/Panama
Date: October 1986

Environmental Action Recommended:

Based upon the following environmental examination, I recommend that the Strengthening Local Government Project be given a Negative Determination, thus requiring no further environmental review.

Concurrence:


Raymond F. Rifenburg
Acting Mission Director

Date:

March 10, 1987

Copy to: IEE Files
James S. Hester, Chief Environmental Officer
Bureau for L.A. and the Caribbean

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I. BACKGROUND INFORMATION

A. Previous Experience with Municipal Projects in Panama

Several projects related to the strengthening local government have been carried out in Panama in recent years.

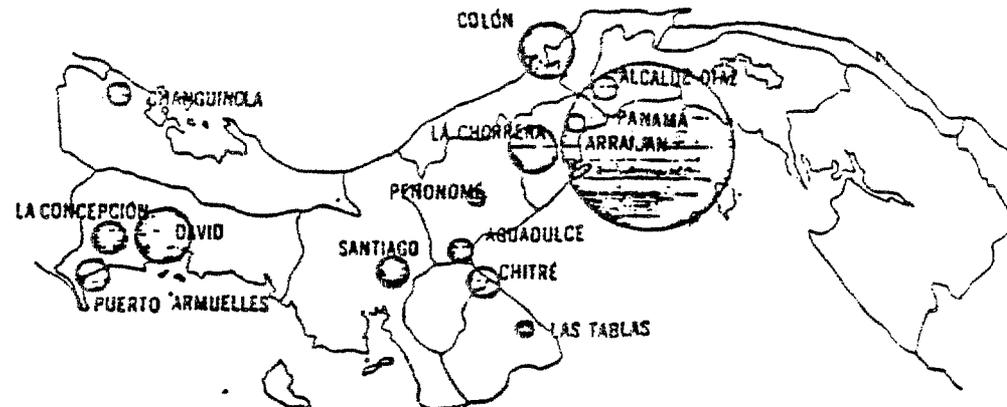
1. The Rural Municipal Development Project was carried out from 1976 to 1981 through a USAID loan to the National Bank of Panama (ENP) and its Fund for Municipal Development (FODEM) to provide funds for a wide range of projects including wholesale and retail markets, slaughterhouses, bridges, agro-industries, artisan industries, water supplies, transport facilities, and electric power generation and distribution. An evaluation carried out in 1982 concluded that the impact of the project on rural municipalities was enormous and that sub-projects constructed such as slaughterhouses, garbage collection services, water supplies, sewerage and others had a direct benefit to their populations.

2. The Interamerican Development Bank (IDB) initiated another project with FODEM in 1979 which indicated that weaknesses in municipal government's management and financial capacity were obstacles to providing credit effectively. The lack of data on municipalities and the lack of capability for the technical, administrative, financial and environmental analyses of sub-projects undermined this second FODEM project.

3. The URBE Project, a \$15.0 million loan to the GOP to invest in infrastructure in secondary cities, was carried out in western Panama from 1978 to 1983. While URBE was not directed specifically at local government --since resources were channeled through central ministries-- it provides a third set of lessons for projects in secondary cities. Those sub-projects which were most directly related to local demand were the most successful.

B. Identification of Target Population

CENTROS DE POBLACION DE 5,000 Y MAS HABITANTES A 1980



CIRCULOS PROPORCIONALES :

$$R = \frac{P \cdot \sqrt{N}}{\sqrt{N}}$$

PARA N = 545,701

The Strengthening Local Governments Project is geographically focused on the Central to Western Regions of Panama. According to the census of 1980, 800,000 people, representing 45% of the total population of the Republic, inhabit the 21 cities in these areas. Of the total target population, the urban-rural split is roughly 56-44 percent. Average family size is 5 persons.

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Population Centers in Panama with more than 5,000 residents *
1980

<u>City</u>	<u>District</u>	<u>Population</u>	<u>City</u>
Changuinola	31933	18911	
Aguadulce	26192	11087	
Antón	30610	5987	
Natá	13284	5185	
Penonome	48335	9291	
Puerto Armuelles	46627	37123	
Boquete	11643	9164	
La Concepción	45172	14552	
David	80053	50016	
Tolé	23066	5043	
Chitré	26823	17315	
Ocú	15316	6103	
Las Tablas	18411	5235	
Los Santos	19262	5604	
Arraiján	37186	16272	
Chepo	20499	6835	
Chorrera	66974	21106	
San Miguelito	156611	156611	
Cañazas	15919	6627	
Santiago	49074	32427	
Soná	23467	7700	
	<u>Totals</u>	806557	448194

* Outside the Metropolitan corridor.

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C. Description of the Proposed Action

The goal of this project is to strengthen municipalities as democratic institutions and the purpose is to improve the capacity of democratically elected local governments to respond to the needs of constituents by improving leadership skills, providing services more effectively and by expanding the local resources base.

The project will cover in six years three specific project components and interventions, as follows:

- a. Development of municipal leadership
- b. Strengthening administration and improving services delivery
- c. Expanding municipal revenues

Three evaluations are planned for the project. The first evaluation will be carried at the end of the second year, and will focus on the effectiveness of the training and intensive technical assistance activities. The second evaluation will be conducted at the end of the fourth year and will determine whether a follow-on credit program is desirable. The final evaluation will be carried out at the end of the project, in year six.

D. GOP and USAID/Panamá Strategy

Recent GOP strategy, has had a strong regional focus, stressing two major objectives: (1) a higher rate of growth, and (2) a wider distribution of the benefits of this growth. These objectives were translated into government policies and commitments aimed at the reduction of income and development disparities between the Metropolitan Region of Panamá City-Colon and the rural-based interior regions of the country. Concomitantly, it was anticipated that GOP strategy would alleviate the flow of migrants from the interior to the overcrowded and underserved Panamá City-Colon corridor.

The goal of this Project supports the objective of the U.S.A. Jackson Plan for the Region. The Mission's Action Plan for FY 1987-1988 points out that effective participation in decision-making is crucial to promoting equitable development: "Our strategy is aimed at strengthening the capacity of democratically elected local governments to prepare them to participate to a greater extent in

resolving local problems." The Strengthening Local Government Project contributes to A.I.D.'s objectives in institution building, technology transfer and democratization in developing countries. Training and technical assistance for municipalities will result in expanded local revenues and local capacity to provide services.

II. ENVIRONMENTAL IMPACT IDENTIFICATION AND EVALUATION

A. Consideration of Probable Impact of Proposed Actions Related to Sub-Program Component

The Strengthening Local Government Project includes sub-programs that could have effect on the physical and human environment of Panama. In order to make this environmental determination, we have reviewed the technical project document and discussed project implementation/development with GOP and USAID/Panama staff.

The specific sub-projects have not been fully identified, but they will be similar to the USAID-FODEM project of 1976-1981 (wholesale and retail markets, improved garbage collection, etc.)

The process of assessing the potential environmental effects of these Strengthening Local Government Projects is based upon an analysis of these basic questions.

1. A description of the proposed action including information and technical data adequate to permit a careful assessment of environmental impact by reviewing agencies.
2. A consideration of the probable impact of the proposed action on the environment, including impact on ecological systems.
3. Can any identified potential areas of significant change, if adverse, be mitigated by proposed or recommended environmental control measures and do the GOP's implementing agencies have the technical capacity and capabilities to effectively carry out these mitigating measures?

B. Special Environmental Measures to be Incorporated into the Strengthening Local Government Project

To assist the municipalities in carrying out its implementation responsibilities, the Project Technical Assistance will develop guidelines that include an environmental component, this

component should identify potential problems or concerns to be considered in all stages of project development: feasibility, site selection, project design and implementations.

To strengthen technical capabilities in the area of environmental planning and impact evaluation, it is recommended that a short seminar on identification of environmentally sensitive areas and project impact evaluation be provided to the municipalities.

III. THRESHOLD RECOMMENDATION

The preceding environmental analysis has concluded that among the potential areas of impact associated with the proposed actions of the Strengthening Local Government Project, there will be no significant changes are expected to occur in the human environment. In addition, the evaluation found a relatively high level of concern and sensitivity to development impacts. While GOP institutional capabilities in general are somewhat limited in the environmental control field, the Strengthening Local Government Project will offer the appropriate technical assistance to enable them to effectively implement the proposed actions with minimal environmental risks.

Based on these findings, it is recommended that the program be given a Negative Determination, thus requiring no further environmental review.

EXECUTIVE SUMMARY

STRENGTHENING LOCAL GOVERNMENT: PANAMA

PREPARED BY:

RONALD W. JOHNSON

RESEARCH TRIANGLE INSTITUTE

SEPTEMBER 22, 1986

This document presents the summary descriptive and analytical conclusions of a three person team who conducted an assessment of the management and financial capabilities of municipalities in Panama from September 7 through September 21, 1986. National and municipal officials were interviewed and relevant financial and management information from six municipalities was reviewed. In four municipalities, the team interviewed all service department heads and key financial officers as well as mayors and most council members.

The most important conclusions are:

Local governments have significant amounts of financial resources that are not now collected;

Local governments could improve both the quality and quantity of service provision;

Major legal and policy changes at the central government level are not required to strengthen the financial and management capacity of local governments.

I. STRUCTURAL FEATURES OF LOCAL GOVERNMENT

The structural characteristics of local government and the lack of exposure of elected officials to a broader perspective on municipal functions limit municipal capacity to develop a more effective role in service provision and economic development. Mayors have been elected only since 1984 and only now are beginning to experience both greater frustration at the inability of their municipalities to meet important community needs, and greater interest in expanding the functions their municipalities now perform. Council members tend to take a narrow view of municipal functions, orienting their budgetary and investment decisions to small projects (a few thousand dollars or less) within their corregimientos.

Each representative of a corregimiento is also a representative to the provincial council, which has the formal function of establishing

provincial priorities for central ministry investments. As a practical matter, provincial level priorities may or may not be respected in the national budget process.

Corregimiento boundaries are defined neither by population nor geographic criteria. Presently, there seems to be a rural bias in the boundaries, which reinforces a rural and small area orientation both within the municipal decision-making process and in representatives' attempts to influence central government allocations. As a result, what funds that are available for investment and general service delivery improvement are fragmented into small, discretionary funds for each representative to allocate within his or her own corregimiento.

II. MUNICIPAL FINANCES

The municipal share of the public sector budget is only about two percent, largely because most infrastructure-related services provided by municipalities in other countries are provided in Panama by central government ministries and autonomous agencies. However, municipal officials express serious interest in expanding their role in providing services. Although the financial resources to meet this demand may seem quite limited, our analysis suggests otherwise.

Municipalities currently collect no more than sixty percent of the indirect taxes available to them, mainly because they have failed to enact or update statutes defining the tax base and rates, and because they have inadequate systems for identifying taxpayers and collecting taxes from them. Most municipalities also have considerable amounts of land that are occupied by individuals who have built residences or commercial establishments, but who have never obtained title and paid for the land. A few municipalities have initiated aggressive campaigns to identify and sell these occupied properties and have experienced twelve to fifteen percent increases in total revenues. User charges for services, mainly garbage collection, often cover only 20% of the costs of services, and many enterprise activities such as public markets operate at a loss.

Improvements in each of these areas would yield significant revenues not presently collected. To put the total potential into some kind of scale, we can compare it with the proposal in 1985 to share twenty percent of the national revenues for property taxes with municipalities. If that proposal had been enacted, municipalities would have received between \$7 million and \$8 million. If municipalities were to address collections problems and achieve up to eighty percent collection efficiency, they would increase revenues by between \$8 million and \$10 million.

III. MUNICIPAL SERVICES

Municipalities now spend a little more than sixty percent of their budget on personnel costs. The largest departments, in terms of personnel, are garbage collection (outside the metropolitan corridor), markets and slaughterhouses, and municipal administration (mainly financial offices). Garbage collection, markets and slaughterhouses also consume the largest amount of materials and supplies and have the largest investments in capital equipment.

There are significant problems in garbage collection services, characterized mainly by aged and insufficient equipment, poor maintenance of equipment, and sometimes unsafe management of landfill sites. Markets and slaughterhouses in municipalities we visited typically were in need of facilities and equipment investments. Cost recovery policies are inadequate to reach break-even points for many municipalities, and implementation of policies is weak where municipalities intend to recover full costs.

IV. POTENTIAL STRENGTHENING STRATEGIES

The findings of the municipal management assessment indicate that five components should be included in a USAID sponsored project to strengthen municipal capacity:

Improved information bases to increase the quality of information available to municipal officials and the public on revenue collections, costs and quality of services, and the use of municipal assets;

Strengthened municipal leadership and intermunicipal cooperation to improve officials' understanding of the role of municipal institutions and to increase the transfer of knowledge among municipalities;

Improved personnel systems to strengthen municipal officials' ability to recruit and retain qualified employees and to provide incentives to employees for improved job performance;

Operational technical assistance and training to improve the delivery of specific services, improve financial management, and enhance investment planning and implementation capacity; and

Improved municipal access to credit to allow municipalities to leverage available resources for a more significant investment budget, taking into account current restrictive central government policy and problems with previous credit programs.

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STRENGTHENING LOCAL GOVERNMENT: PANAMA
PREPARED BY:
RONALD W. JOHNSON
RESEARCH TRIANGLE INSTITUTE (RTI)
SEPTEMBER 22, 1986

This briefing document on strengthening local government consists of elements drawn from an assessment of municipal management problems and potential solutions conducted in Panama during the period September 7 through 21, 1986, by a three person team from RTI and several members of the USAID/Panama Mission and RHUDO staff. The team conducted interviews with all national government agencies that have close relationships to local government or close involvement in local service provision and finance. Intensive field visits were carried out in four municipalities (San Miguelito, David, La Chorrera, and Chitré), and less extensive interviews were done in Concepción and Boquete. During the field visits, mayors, most members of the municipal councils, all service department heads, and key financial officers were interviewed and relevant financial documents were reviewed. In addition, members of the field team observed a meeting of mayors and some representatives of corregimientos from 17 municipalities.

The most important conclusions from our assessment are:

Local governments have significant potential amounts of financial resources that are now collected;

Local governments could improve both the quality and quantity of service provision; and

Major legal and policy changes at the central government level are not required to strengthen the financial and management capacity of local governments.

There are four sections to this report. The first three are diagnostic analyses of the structural features of local government, financial resources, and local service provision. In section IV, we discuss the potential elements of a strategy for strengthening local government.

I. STRUCTURAL FEATURES OF LOCAL GOVERNMENT

A. STRUCTURE AND FUNCTIONS

There are 65 municipal governments corresponding to 65 geographic districts (Distritos) in Panama. Within districts are 505 geo-political units called corregimientos. Neither population nor geographic size forms the basis for corregimiento boundaries.

Furthermore, both rural areas and urban centers are found in most districts. The term municipality is used to refer to the political and legal entity responsible for district governance, and thus, municipalities are responsible for both urban and rural areas. For example, La Chorrera has a total of 18 corregimientos of which five constitute the urban area; the remaining 13 corregimientos are predominantly rural in character. Chitré has three corregimientos, one of which is entirely urban and the other two of which have both urban concentrations and rural areas. Municipalities vary in population size from 529,372 to 1,552.

Elected Municipal officers include the mayor (el Alcalde) and municipal council representatives (representantes), one of whom is elected from each corregimiento. The municipal council is the municipal legislative body whose decrees are legally binding. Municipalities that do not have the legal minimum of five corregimientos and hence five representatives, elect at large the number of additional members required to make up the minimum total of five on the municipal council (el Consejo Municipal). These at-large members are referred to as councilors (consejales). Mayors, who were first elected in 1984 and serve a five year term, are non-voting members of the municipal council. Representatives and councilors also serve a five year term.

In addition to their role as members of the municipal council, each representative is also a member of the provincial council (el Consejo Provincial). Those councilors elected at-large rather than as a representative of a corregimiento do not sit in the provincial council. Within each corregimiento is a Junta Comunal whose members are appointed by the corregimiento representative, who also is the president of the Junta. The Junta Comunal has the responsibility to develop and promote the socioeconomic and cultural needs of the community it represents in coordination with the municipal council and the central government agencies represented in the province. It also serves as a conduit for local community demands. A corregimiento representative, then, may link three levels of government through direct participation in the corregimiento, municipal council and the provincial council.

Below the Junta Comunal, are a number of elected neighborhood organizations called Juntas Locales, that inventory community needs and articulate community interests. These needs may vary from specific service delivery provision to consumer attention. Juntas Locales also may be trade-based, labor-based, or other, non-geographic based groups. These grass roots organizations support and implement programs and projects of the Juntas Comunales of which they are an auxiliary organ.

Although municipalities in Panama have a very small role in the provision of infrastructure and public services, the Law (Law 52) confers to municipal councils a wide array of legal responsibilities. Besides programming, budgeting and local administrative functions, municipal councils can create mixed or public companies for any type of activity;

provide directly or in concession a wide range of public services currently provided by the central government; and authorize the construction of slaughterhouses and markets, along with a wide range of other activities and functions (Art. 4 reforming Art. 17 of Law 106).

The municipality is also empowered to raise its own revenues from indirect taxes on business establishments, unconstructed plots in populated areas, uncultivated land, industrial production facilities and license fees. The municipal Treasurer is to maintain an updated Fiscal Municipal Cadastre, although our interviews with several officials revealed that this is often out of date for lack of trained personnel and time.

Although the municipality, and specifically the mayor, is required to prepare one- and five-year development plans and operating and investment budgets in collaboration with the representatives of the Ministry of Planning and Economic Policy (MIPPE), municipal capacity is probably weakest in planning and programming. Our interview with the Secretary General of the municipality of San Miguelito revealed that there is little or no coordination with MIPPE, and while the municipality has contemplated the importance of the planning process, very little has been achieved to date. The planning that actually occurs in many municipalities is done by the regional offices of the national government with little or no interaction with local authorities.

National-local government interactions occur through the provincial council and through direct contact with central government ministries and autonomous institutes.

1. The Provincial Council:

The provincial council is not a governing group, but rather is an advisory body that serves as a coordinator between municipal government and the central government's legislative and executive branches. Each of the provinces has a governor appointed by the President of the Republic. Its major organizational form is the provincial council whose only voting members include representatives of the national agencies. The governor, mayors and councilors assist at the provincial councils without the right to vote.

The provincial council establishes priorities for how provincial allocations of central government sectoral ministries' funds are to be spent within the province. The provincial structure, however, is best understood as supporting planning and advisory activities; the provincial councils do not actually control ministry budgets. Their role, nevertheless, is influential in locating projects within provinces, and hence they are a key instrument in decisions about central ministry funding of projects at the local level. Since the membership of provincial councils reflects the distribution of corregimientos across

the country, the dominance of rural or urban representatives in corregimientos can dictate the degree of rural/urban balance in the funding of central ministry infrastructure.

2. Representatives of Central Government Agencies

Ministries of central government—MIPPE, MIVI (Ministry of Housing), MOP (Ministry of Public Works), IDAAN (Water and Sewerage Institute), and other national agencies have regional offices in each of the provinces, typically located in the most urban center, that are supposed to work directly with municipal and provincial governments. From a local government perspective, MIPPE is the leading national agency. It has the primary responsibility for planning and budgeting activities at the national level and for monitoring capital investments and needs. It also receives comprehensive quarterly reports on budgets and programs from the municipalities.

Many of our interviews with local officials suggested that central government agencies make important decisions without consulting or understanding the problems of local governments. The mayor of Colon provided an example: technical assistance for planning land uses in the reverted areas was contracted for without his approval or knowledge.

Many centrally-provided services also are thought to be deficient. In the municipality of Las Palmas, the mayor has to transport transgressors of the law in his personal vehicle. Complaints were especially severe in the small municipalities where central government agencies were inaccessible and such public works as rural roads were deficient or non-existent. The mayor of Soná complained of market garden produce spoiling because of poor access roads.

There also appears to be little support for regional initiatives by central government agencies because of inadequate coordination among these agencies and with their local counterparts. On the other hand, central government agencies have little confidence in the capacity of local government officials to plan for development. The lack of confidence justifies from their point of view ignoring municipal officials in planning and programming resources.

B. INTER-MUNICIPAL COOPERATION

The Association of Inter-Municipal Cooperation (APCI) was created in 1945 and functioned as an entity until 1968 when it was replaced with the National Assembly of Representatives (La Asociación Nacional de Representantes) and the Association of Mayors (La Asociación de Alcaldes). With the creation of these two associations, APCI had little reason to exist and its functions were assumed by the two associations. However, while mayors were appointed for a three year term, the representative held office for six years. Although mayors were appointed

by the president, representatives could suggest candidates and were also empowered to replace mayors. As national representatives, they wielded considerable power and the mayors were little more than "instruments" of the representatives. The two associations, like their predecessor, were primarily political interest groups, and had little impact on improving the capacity of local government.

In an attempt to redistribute power between mayors and representatives, the law was changed in 1984 to allow the popular election of both for five year terms. Since 1984, both the associations of representatives and mayors have been defunct. APCI now integrates both the representatives and mayors into a single body. In August, 1985, APCI was reactivated to study such issues as autonomy, institutional linkages between local and central government, and ways of strengthening smaller municipalities in the interior. However, it has done very little to date.

APCI is directed by an Executive Council elected for a two-year term. The Council consists of a president and nine vice presidents representing the nine provinces. The president is elected by the representatives, mayors and councilors of all provinces while the vice presidents are elected by province.

The principle short-term objectives of APCI's Executive Council are to consolidate the association, to strengthen the local government base up to the level of the provincial council and to lobby for recognition by the central government. APCI is attempting to establish itself in a strong position to determine the direction municipalities will take in the future.

We received conflicting information on the legal status of the association. The President of APCI believed that legal recognition would have to be obtained from the Ministry of Government and Justice and then inscribed in the Public Register. On the other hand, the legal advisor in David asserted that because the association is contemplated in existing law, it has automatic legal status. APCI has syet to receive formal recognition from the central government.

Currently, APCI is in the process of reorganization. The mechanisms for establishing funds for the association, the level of contributions expected from its members and the statutes of the organization are being formulated. A MIPPE official commented that although the objective of such an association is to promote municipal governments as agents of development, one of the problems is that the association is trying to assume a prominent political role rather than that of promoting economic development.

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C. ANALYSIS

The structure of municipal government ranging from the most basic neighborhood organization (Juntas Locales) to community organizations (Juntas Comunales), to the municipal council, provides for a system of local interest articulation, that can influence priorities for the entire municipality.

Only the mayor is elected from the entire municipality (except in those districts with fewer than five corregimientos). This often leads to a fragmented view of what the municipality can and should do in providing public services. It also contributes to a fragmentation of municipal resources, and makes it difficult to provide municipality-wide services and capital investments. In most municipalities, a portion of the limited discretionary budget is allocated to each corregimiento, where it typically is spent on small public works such as repairing a school roof, painting a day care center or providing emergency social service assistance.

The fragmented nature of municipal government is reinforced by the system through which central ministry investments in local infrastructure (roads, water, sewers, schools, etc.) are determined. Regional, provincial, and local level planning for central ministry investments formally is done in the provincial council. Since membership in the provincial council consists of the elected representatives from the corregimientos, the same individuals serve at both the municipal and provincial levels. As the decision-making body at the provincial level, this group of representatives is responsible for trying to influence central ministry investments in their respective corregimientos. Thus, in practice, the provincial structure is not a decision-making group but is more of a lobbying or interest group which influences central ministry investment decisions.

Finally, as the electoral base for both the municipal and provincial councils, the corregimiento is the key unit in determining municipal resource allocations and influencing central government investments within municipalities. Corregimiento boundaries, however, appear not to be set either by population or geographic area, and it is not clear at this time what the bias may or may not be. However, the suspicion is that it builds a rural bias into both municipal and provincial investment allocations.

II. MUNICIPAL FINANCES

Total income for all municipal governments in 1984 was \$34 million, of which only \$687 thousand, or less than 2%, were transfers from other sources, mainly the central government. The extent to which municipalities in Panama generate virtually all of their own resources without relying on central government financial transfers contrasts

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greatly with other countries in the region where central government financial transfers more commonly range from 25% to 60%. On the other hand, total municipal income, including central transfers, represents only 2% of the total public sector budget. This also contrasts greatly with other countries in the region, where the municipal share of the public sector comes closer to 10% to 15%. The difference between Panama and most other countries in the region is that the central government in Panama provides many services, and virtually all capital investment, leaving municipalities with a much smaller role than in other countries.

This section describes the principal sources of municipal income and then discusses areas for potential additional revenue generation. The important considerations to keep in mind are the extent to which municipal sources of income are responsive to changing economic conditions, the extent to which municipalities have the possibility of creating or influencing the conditions under which municipal revenues can be increased, and the extent to which possible sources of additional income are feasible.

A. MAJOR REVENUE SOURCES

The largest single source of municipal income consists of various indirect taxes (Impuestos Indirectos) on commercial and industrial activity and licenses. For 1984, these indirect taxes accounted for approximately \$23 million (68%) (see Table II.A.1.). Of this \$23 million, nearly \$16 million (47%) are taxes on virtually all commercial activities, including service industries such as banking and personal institutions. Second among the indirect taxes are licenses for rental of fixed and other assets account for nearly \$5 million (15%) of total revenues. Capital income, as distinct from current revenues, was only \$1.2 million (3.5%) in 1984, and was exclusively due to sales of fixed assets (sales of municipal lands). Borrowing by all municipalities represents a fractional part of 1% of total revenues.

Each municipality is legally entitled to determine its own indirect tax base and rates to be applied within that base. Ley 106, a national statute, sets out the activities to which taxes may be applied, and then municipalities may determine how those activities are to be taxed. Some are taxed by category. For example, public garages may be assessed simply a flat monthly rate regardless of size (as in San Miguelito). Other commercial activities may have a more extensive categorization based on sales volume or level of capital investment. For example, insurance companies may be taxed on their annual receipts, while factories may be taxed on the amount of capital invested.

Each municipality must establish a specific base on which taxes are to be applied and set the rate or range of rates in one or more

specific municipal legislative acts, passed by the municipal council. Municipalities may obtain information directly from businesses on the appropriate classification within the base and may obtain assistance from the Ministry of Industry and Commerce in determining the valuation base. Some municipalities have accumulated a long series of individual statutes over a number of years as new businesses or new categories are added to the tax base. Other municipalities may collect the entire indirect tax base in one statute (régimen impositivo).

This indirect tax capability allows municipalities to have some control over their revenues by adjusting revenues to changing economic conditions. At the same time, to the extent that the municipality provides services, infrastructure, or other facilities that encourage commercial and industrial activity within the community, it can also affect its own tax base. Since each municipality is free to set its own base and rates, municipalities cannot afford to be sharply at a variance with nearby communities since many small businesses may be relatively free to move from one location to another.

Although helpful to an overall understanding, the national aggregate figures conceal wide variations among municipalities. While indirect taxes still account for the largest revenue source in most municipalities, for a few, the operation of a public enterprise such as a slaughterhouse is the single largest source. Within the broad category of indirect taxes, considerable variation occurs due to variations in the distribution of commercial activities and variations in collection efforts among municipalities. For some, municipalities collections of indirect taxes on commercial activity are weak, but collections of vehicle licenses are high. San Miguelito, for example, is a city with high levels of poverty and unemployment and relatively lower levels of commercial activity. Seventy percent of its \$2.4 million budget for 1986 comes from indirect taxes, but within that category, taxes on commercial activities and licenses on vehicles are almost equal (34% and 36% of total respectively). Of David's total 1986 revenues of \$1,484,000, on the other hand, only 20% comes from vehicle licenses whereas commercial indirect taxes account for 46% of total revenues. Overall, this reflects a healthier economic community and higher levels of commercial activity. Smaller municipalities with active public markets show proportionately larger revenues from the rental of market stalls. Those with inactive markets show net losses from the operation of public markets because vendors operate on the streets instead of in the market, (for example, Chitré).

B. ANALYSIS

The most important characteristic of municipal finance is the potential for revenues that are not received or collected. While no national aggregates are available, our analyses of individual municipalities show that large amounts of potential resources are not now collected. In six municipalities visited, estimates indicate that municipalities collect less than 60% of their potential indirect taxes. For example, the municipality of Chitre has not revised the municipal statute governing indirect taxes since 1960. Not only are the bases on which rates are calculated and the rates themselves out of date, but there are a number of categories of commercial activity now in Chitré that did not exist in 1960. No tax collections are possible for those activities not contemplated when the current statute was enacted. Thus, with a 1986 budget of \$500,000, mostly derived from indirect tax revenues, it is probable that from \$100,000 to \$250,000 more in revenues could be collected.

Likewise, even for activities that are included in the tax base, collections are significantly lower than tax liabilities to the municipality. Again in Chitré, there is an estimated 20% of indirect taxes included in the régimen impositivo that are not collected. In David, of a total budget of \$1.5 million, there is an estimated under collection of over \$100,000 in commercial taxes alone. San Miguelito estimates that at least 10% of its commercial taxes are uncollected, and estimates from the other 65 municipalities range from 50% to 10%.

User charges for services rendered by the municipality, when viewed in the national aggregate data, appear insignificant (less than 1%). However, if the budgets for the metropolitan cities of Paramá and Colon are excluded, they become significant because all municipalities outside the metropolitan corridor are responsible for their own garbage collection. For example, in David, \$450,000 of the total budget expenditures (total budget of \$1.5 million) are for garbage collection. Based on the rates and the number of service recipients, the City should be collecting approximately \$400,000 in service charges, but actually will collect less than 50% of that amount this year. Thus, not only is David subsidizing more than 50% of the cost of garbage collection, but the undercollected service charges amount to 15% of total revenues. In Chitré, the budget for garbage collection is \$14,000 annually (3% of the municipal budget). Only \$3,000 is collected in user charges, although rates and the number of users should produce revenues of nearly \$28,000, more than enough to support the capital investment in new equipment needed by the municipality.

Municipalities also have varying amounts of land occupied by individuals who have built homes without securing titles and paying the municipality for the value of the land. While it is true that in some municipalities this land has been occupied by low income families, this is not universally true. In any municipality, there are homes built by middle and upper income families on untitled land owned by the local government. In David, about 35% of occupied municipal land is not being paid for, although its market value has not been determined. La Chorrera, on the other hand, has an aggressive campaign to start registering municipally owned properties and to sell them to occupiers at below market value. This program has increased revenue from less than \$200,000 in 1983 to more than \$400,000 in 1986.

While some municipalities operate financially successful enterprises such as slaughterhouses and markets, many others operate at or below cost while private sector counterparts operate commercial enterprises profitably. Although there are appropriate roles in some municipalities for such enterprise activities, their inefficient operation is more likely to drain financial resources than to generate.

A final potential source of additional municipal revenues for capital investments is valorization or betterment levies. Current law (Law 94, Chapter 10, Section 65) permits municipalities to use valorization, but neither most central government officials nor municipal officials are aware of this. The Ministry of Public Works has an office of valorization. This office has used the betterment levy to widen and resurface some streets in Panama City, but was not aware that municipalities were also entitled to use this source. Staff of the Ministry of Government and Justice responsible for municipal statutes and legal structure, were also unaware of the statute, and no municipal official interviewed knew of the provision. There was considerable interest in this provision everywhere it was mentioned.

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III. MUNICIPAL SERVICES

A. COMPONENTS OF MUNICIPAL EXPENDITURES

As noted earlier, central government agencies provide most infrastructure and services such as water, sewers, streets and roads. Within the metropolitan corridor, central government also collects solid waste. This leaves municipalities with limited service provision responsibilities, the largest of which is solid waste collection. No functional breakdown of municipal expenditures is available at the national level because aggregate figures are presented only for objects of expenditure. As Table III.A.1. shows, personnel (servicios personales) represents the largest single expenditure: almost \$18 million out of a total \$32 million (55%). This figure, however, does not include an additional \$2 million in insurance/social security (Seguridad Social), which increases personnel costs to 63% of total expenditures.

Other major expenditure categories include materials and supplies (9%), other (non-personnel) services (9%), and transfers to other institutions. This latter category is disaggregated in Table III.A.1. which shows total transfers at \$5.6 million (18% of total expenditures), but \$2 million of that figure are social security payments. The other largest transfer in that general category (\$2.6 million or 8% of total) is to the central government for municipal use of various services such as water, electricity, and sewer systems, and payments to the Comptroller General (Controlaria General) for central government employees such as auditors and audit staff assigned to municipalities.

Although the MIPPE reports municipal investment expenditures in 1984 at \$6.7 million (21%) and comments favorably on the fact that municipalities are therefore investing in infrastructure (Presupuestos Municipales, 1984-1985: Ingresos y Egresos, page 2c, MIPPE), the figure is misleading. Included in the \$6.7 million are \$200,000 in equipment, including office equipment; \$30,000 in land acquisition; \$400,000 in contracted construction; and \$50,000 in debt service for a total of \$1.1 million (4% of total expenditures). The total of \$1.1 million may be too conservative, but is much closer to the actual capital investment figure than the \$6.7 million. For example, included in MIPPE's figure are transfers to individuals, scholarships, payments to central government ministries for services, and \$2 million in contingency funds.

The \$2 million in contingencies are actually assigned funds that are used mainly by municipalities for discretionary expenditures by

members of the municipal council for activities within their corregimientos. Some of these discretionary expenditures may be for "works" type expenditures such as repair of a school roof. However, they also may be for uniforms for a sports team, emergency food assistance to destitute families, or any variety of social and other purposes. While the expenditures may be necessary, few should be classified as investments. Thus, a more accurate figure for investments, including maintenance of infrastructure, is closer to \$3 million (9% of total expenditures).

B. ANALYSIS

The primary municipal services we identified for strengthening are garbage collection; public facilities for private and commercial activity; small and medium-sized public works (\$250,000 to \$2 million); and, possibly, street and road maintenance after MCP construction. (On the same scale as road maintenance might be small water line extensions.)

Garbage collection is a problem in virtually every municipality, including San Miguelito where this service is supposed to be provided by the central government. The main problems are the infrequency of collection, inadequate and poorly maintained equipment, and potential health hazards at landfill sites. User charges are seriously undercollected, and virtually every municipality needs capital investment in equipment and disposal.

Although San Miguelito's garbage collection is provided by IDAAN's Department of Metropolitan Sanitation (DIMA), its problems are not atypical. DIMA equipment is too large to negotiate many of the irregularly laid out streets. Chitré, which provides its own garbage collection, has equipment that was not designed for trash pick-up and requires additional personnel to operate. David has equipment that is too old to be in service most of the time. In addition, although they have a new landfill site, contaminated (hospital) wastes are not handled separately, and there are potentially serious health hazards to the community.

In most municipalities, garbage collection is not treated in an accounting sense as a cost center so that total investment cannot be compared with user charges (rates and collections). Consequently, municipalities are not able to make conscious decisions about policies on full cost recovery, subsidies among income groups, or subsidies across municipal programs.

Markets, bus terminals, common facilities for small entrepreneurs and artesans, and slaughterhouses are public facilities built and maintained by some municipalities, many are only marginally successful.

Some appear to be potentially very successful if facilities are constructed or operations are improved. In David, for example, the public market is heavily used, but the facilities are overcrowded and lack cold storage capacity. Consequently, many vendors have abandoned the market and moved to the street, creating traffic and sidewalk congestion, and in some cases health hazards. The municipality has identified a site that is central to the most rapidly growing area and is conducting a feasibility study on constructing a new market.

La Chorrera is one of the few municipalities which operates its slaughterhouse on a cost recovery basis. On the other hand, there are several private slaughterhouses, especially those geared to the export market which are profitable. There appear to be opportunities for analysis of successful slaughterhouse operations in both the public and private sector and failures at least in the public sector. Based on these case analyses, the appropriate mix of roles for the private and public sectors in these enterprises can be explored.

Public works construction in municipalities is virtually nonexistent. However, David, La Chorrera, San Miguelito and Concepción, among the municipalities we visited all identified needs for capital construction type investments. In addition, a number of mayors and representatives at the meeting of 17 municipalities in Anton indicated needs for capital investments. The almost universal obstacle cited by the mayors, however, was the lack of capital financing. Only David, which had a successful experience with a FODEM loan, indicated a serious intention to obtain credit to construct a market (at an estimated cost of \$500,000 to \$750,000, not including the value of the land already owned by the municipality).

On the other hand, as discussed in section II, municipalities have untapped resources in the form of undercollected indirect taxes and user charges. Based on analyses of the budgets of municipalities we visited and interviews with numerous local officials, potential municipal resources, without central government transfers, are sufficient for municipalities to undertake capital projects in the \$250,000 to \$2 million range. Yet current municipal capital investments are much more likely to range from about \$5,000 to \$25,000. The primary obstacle in our view is that municipal officials generally are not accustomed to thinking of borrowing for capital investments, nor are lending institutions necessarily responsive, although Panama has far more investment capital available than other developing countries.

Finally, it seems feasible to expand the municipalities' role in maintenance of infrastructure and facilities. Although all municipalities could easily come up with a list of projects they would like the central government to construct in their districts, the more

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serious complaint about public works provided by the central government is the inadequacy of maintenance after the project is completed. This seems particularly true of streets and roads. Part of the problem in the eyes of municipal officials is the lack of priority MOP assigns to road maintenance. The other part of the problem is in new streets that are in desperate need because of construction activities by INTEL, IHFE, IDAAN and other central agencies. It seems that no one really assumes the responsibility for these repairs, and municipalities are by default making at least emergency repairs.

While dedicating municipal resources to roads construction, except short sections of feeder roads, is unlikely and probably not warranted, given that municipalities have assumed informally some emergency repairs and also have the potential for increasing resources, consideration should be given to their taking a more formalized role. Conceivably, this could extend to additional maintenance responsibilities for such other infrastructure services as water and sewer lines. At least one municipality, Boquete, already has its own municipal water system and others are interested in extending services to small areas outside IDAAN's mandate.

IV. RECOMMENDED ADMINISTRATIVE/MANAGEMENT INTERVENTIONS FOR USAID PROJECT

Five types of potential interventions in municipal management and administration should be included in the Strengthening Local Government project:

- A. Improvement of information systems to raise the quality of information available to municipal officials and the public on the costs, quantity and quality of public services; the use of municipal assets, such as land; and the tax and user charge obligations of citizens and service recipients;
- B. Strengthening of municipal leadership and intermunicipal cooperation to improve officials' understanding of the potential role of municipal institutions in political, social and economic development and to increase the transfer of knowledge between institutions outside Panama and Panamanian local governments, and among municipalities within the country;
- C. Improvement of personnel systems including job descriptions sufficient for identifying responsibilities and training in basic skills, criteria for performance review and potential for salary increases and promotions to increase the quality of local public administration and enhance the ability of municipalities to retain effective personnel;
- D. Technical assistance and training to improve administrative and operational procedures in municipalities, including tax and user charges collections; budget preparation and cost monitoring; financial management and accounting support, performance measurement and capital projects planning and budgeting; garbage collection, including equipment selection and purchase, maintenance, scheduling and land fill operations; and streets and other infrastructure facilities maintenance;
- E. Expansion of municipalities access to credit, including exploration of possible private sector sources, central government sources, A.I.D. credit line and A.I.D. guarantee to enhance the leveraging of municipal resources.

A. INFORMATION SYSTEMS

In our interviews with both elected municipal officials and financial personnel, the recurring explanation of the low level of tax and user charge collections was the lack of adequate information on the taxpayers (contribuyentes) -- incomplete tax

roles, incomplete information about previous payments, inadequate means for checking and cross referencing to determine when an individual or when a commercial location had or had not paid. No municipality visited had adequate systems to facilitate reasonable tax collection efforts. Any other form of training or technical assistance to improve tax and rate collections would fall far short of improving revenues collected unless the information base is first improved.

Improvements in the information base would require: 1. a thorough updating of commercial cadastres in order to define the tax base for the indirect taxes; 2. a complete identification of residential and commercial properties being provided garbage collection; and 3. a simple system providing for regular review of payments, cross referencing names of taxpayers and location of commercial establishments, and cross referencing other taxes or licenses such as services received from the municipality (usually garbage collection) and taxes on advertising signs or other notices.

Such an information classification, storage and retrieval system could be designed for implementation as a paper system for smaller requirements and a microcomputer-based system for larger requirements. Computerization should be examined with the view of combining the information base with an automated means for billing and updating of records; otherwise, storage and retrieval purposes are better met with paper systems.

Another information need to improve the quality and quantity of services is a system for measuring the level of work activities performed in carrying out municipal services. San Miguelito, for example, is in the process of implementing in some of its service departments a system for monitoring the personnel time required for completing each standard activity carried out by the department, including the type and amount of materials or supplies consumed and the amount of time specific equipment is required. Departmental budget estimates for next year have to identify the types of activities that will be performed and, using information developed during the current year, estimate budget requirements based on volume of activities and cost per unit of activity. While the program is in an early stage of development, it offers both evidence of interest and hope for improvements in managing the cost effectiveness and efficiency of service provision.

A third type of information lacking in all municipalities is an inventory of municipal assets, which consist mainly of land and some buildings and public facilities such as markets, transport terminals and slaughterhouses. Such an inventory serves three purposes:

- (1) the inventory would establish a basis for collections for occupied land that has not been paid for;
- (2) the inventory would provide information on unused municipal property available for economically or socially productive uses; and
- (3) the inventory would provide information for municipal buildings and other improved assets, on age of structure (or large equipment), current condition, and, over time, maintenance records.

B. MUNICIPAL LEADERSHIP AND INTERMUNICIPAL COOPERATION

One of the difficulties municipal governments will have in developing a more coordinated and effective mix of services and capital investments is the pressure that new focus the attention of representatives on small geographic areas to the neglect of larger municipal or district interests. This type of representative system is not per se a problem, but the amount of resources municipalities currently manage is so small as to encourage elected officials to think small. Furthermore, most mayors and representatives have no previous public sector experience, and may or may not have financial management and service provision experience in the private sector. Since local governments have not played a significant role in decision making in Panama, local elected officials do not have a clear orientation toward the possible roles municipal governments could play. Hence, their main interests are in satisfying the needs of the constituency that elected them without thinking of how investment decisions for the municipality could yield lower cost and higher service ratios.

The experience of Panamanian local government officials who participated in a USAID sponsored tour to Puerto Rico and the United States in 1986 suggests that exposure to what municipalities are doing in other countries and exposure to practical solutions to municipal problems results in some reevaluation of their own roles as municipal officials and a heightened interest in making their functions more meaningful.

Our observations at the meeting of municipal officials in Anton and our experience in other countries, suggest that there is much to be gained from stimulating intermunicipal cooperation and technical assistance in Panama. We found during field visits municipalities that are quite successful in managing financial resources and providing services. Other municipalities could gain from these successful experiences. Although it has only recently been reactivated, the Association of Inter-Municipal Cooperation seems a likely candidate for disseminating such information and for providing a forum for discussions. It could also serve as a clearinghouse for technical information, and for providing some forms of training and technical assistance.

C. IMPROVED PERSONNEL SYSTEMS

Although we did not find employee turnover quite as high as some central government observers seem to think it is, it still is sufficiently high to be a source of concern. In addition, while the quality of personnel in some municipalities is high, staff skills are very uneven. The most important cause of turnover and poor quality staff is the lack of adequate personnel systems for formalizing job descriptions, skill or training requirements for each job, criteria for performance evaluation, retention, salary increases and promotions. Although a detailed and cumbersome municipal civil service system may not be needed, given the relatively small numbers involved, a more formal system of personnel management seems to be essential.

Without a more formal personnel system with written job descriptions and evaluation criteria, municipalities have no clear guidelines for rewarding employees who are motivated to higher levels of performance and no clear guidelines for officials to use in stimulating higher levels of performance through salary and promotion incentives or in terminating employees for exceptionally poor performance.

D. ADMINISTRATIVE AND OPERATIONAL ASSISTANCE

Improved information bases, strengthening political and administrative leadership, and improving personnel systems are important for improving municipal finances and services. However, other forms of technical assistance will also be necessary to strengthen local government.

1. Technical assistance and training will be necessary to improve tax and user charge collections. Without significantly improved information bases, a more aggressive collections stance will not be particularly successful. Without specific collection strategies, however, the information bases will not be sufficient. Foremost among the operational improvements that technical assistance and training can enhance are:

- (1) making it easier for tax payers or service beneficiaries to pay; and
- (2) making it unpleasant for tax payers or service beneficiaries who do not pay.

In the first category are improved systems for staggering the time for payment for some taxes (to avoid long lines), making it possible to pay taxes at locations other than the municipal building (such as directly in the Banco Nacional de Panama), and having

taxpayer records and forms easily accessible when a taxpayer comes in to pay. It is not uncommon, according to several officials we interviewed, for taxpayers to wait one or more hours for their records to be found, for their tax obligations to be determined, and for receipts to be prepared. Often, taxpayers are told to come back the next day or next week when the municipality will be able to find the necessary records.

In the second category are assertive public information campaigns on the responsibilities of citizens to pay their taxes and charges, corresponding campaigns to inform citizens of the services they receive for their payments (making sure to improve services as well so there is something to campaign about), possible publicity about individuals or businesses who are seriously late or seriously in arrears, and even door-to-door campaigns to inform citizens of their tax obligations. In some countries, tax collectors have been paid on an incentive or bonus system; in others, tax collections have been contracted out to the private sector.

While no one really likes to pay taxes, serious attempts simply to register taxpayers and inform them of their obligations usually increases tax receipts even with no other changes in collections procedures. For example, USAID/Peru's experience in the Departments of Junin and Cajamarca with property tax cadastres demonstrated that the actual process of carrying out the registration survey brought significant increases in tax payments because citizens assumed that collections would follow.

2. Technical assistance and training will also be needed to improve financial management practices including budget preparation, service performance monitoring, accounting support, and capital projects planning and budgeting. The kinds of improvements in budgeting systems that San Miguelito is attempting to implement are needed in other municipalities as well. Few municipalities now make any attempt to collect budget information about the activities of municipal departments. While departmental budgets identify personnel, materials, supplies and other costs, there is no information collected or maintained on what activities personnel perform or on the services provided by the expenditures. Consequently, budget estimates can only be stated in terms of changes from the previous year. Movement to an activity-based budget process and accounting support system would provide municipalities with a better means of identifying cost/performance relationships and would identify opportunities for cost savings or service enhancements.

Because municipalities do not now have significant capital investment programs, processes for identifying, planning, costing

and implementing capital investments have been irrelevant. But if municipalities improve their financial situation, and begin to implement high priority capital projects, then a systematic capital facilities planning and budgeting process will be important. A complex system is unnecessary for the level of total capital investment and capital assets of municipalities in the near term. However, a process for aggregating community preferences, taking advantage of the structure of local government, establishing a five year set of priorities and projects, and carrying out technical and financial feasibility analyses is necessary. With additional resources available as a result of the strengthening strategies identified above, municipalities then would be in a position to consider alternative financing strategies.

3. Technical assistance and training is needed to improve efficiency in the delivery of specific services. Training is essential for improving garbage collection. If other technical responsibilities such as streets and infrastructure maintenance are assumed, then technical training or assistance in these services is also needed. At a minimum, assistance will be required in equipment selection and procurement, equipment maintenance, route scheduling, and landfill or other disposal operations (including health-related training). Inadequate, inappropriate, and aged equipment is the most immediate problem. The equipment that is available often is not suited to the specific collection problems of municipalities. In addition, consideration must be given to life cycle costs (considering fuel consumption and other operation and maintenance costs) in initial procurement decisions. To make the best use of new equipment, training in its use and maintenance is critical. In addition, facilities adequate to keep equipment clean, maintained, and protected when not in use are needed. Proper maintenance schedules and trained staff are important to prolong the useful life of equipment.

Training and technical assistance is also needed to improve land fill operations, or other disposal methods. Current landfills often are health hazards, partly due to inadequate siting, inadequate equipment and staff to cover over the garbage, and lack of separate handling of hospital or other contaminated or hazardous wastes. Technical training must focus on safe and healthy operation as well as cost effective operation.

E. IMPROVE ACCESS TO CREDIT

Although a number of steps have been outlined that can significantly improve municipalities' financial position and capacity to provide services effectively, municipalities will be unable to carry out significant investment programs on a

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pay-as-you-go basis. Even though municipalities might realize increases in revenues of from \$200,000 to \$750,000, and more if cost savings also are counted, these resources will not be used effectively as direct investment resources. While some municipal projects will fall within that cost range, municipalities should leverage these resources into larger investment pools by borrowing to finance capital investments using revenue increases to service the debt. Using a conservative multiplier of three or four, a modest revenue increase would yield possible investment budgets for a first investment year of \$600,000 to \$3 million for some municipalities (first investment year in the sense of after revenue enhancements have taken effect). This type of investment pool would allow municipalities to provide significantly higher levels of services than if the non-leveraged amounts were simply invested each year.

To leverage the revenues potentially available to municipalities, access to credit is essential. Panama has larger and more stable credit markets than most countries, and a variety of options should be considered. Among these options are an A.I.D. credit line, A.I.D. guarantee program, involvement of the central government in a credit program, and involvement of the private credit market.

Current central government restrictions on all public sector borrowing will have to be considered. Borrowing even small amounts is tightly restricted, and by Presidential decree all borrowing in excess of \$50,000 must be cleared through the Cabinet. In addition, design of a credit program would have to account for factors contributing to failure in previous credit programs.

Table (I.A.1): AGGREGATE MUNICIPAL REVENUES

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(in millions of Balboas)

	Revenues	% of Total
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Current Revenues	33,119,909	96.20%
Tax Revenues	23,486,185	68.24%
Direct Taxes	3,630	0.01%
Indirect Taxes	23,482,555	68.23%
Commercial & Services	13,722,053	43.82%
Industrial Activities	951,192	2.75%
Vehicle & Other Licenses	6,774,340	19.62%
Other	69,940	0.20%
Non-Tax Revenues	9,104,316	26.45%
Rental of Assets	2,913,580	8.47%
Other Rentals	2,032,790	5.91%
Sale of Assets/Property	542,675	1.58%
User Charges	338,115	0.98%
Transfers	687,670	2.00%
Assessments & Licenses/Permits	2,807,742	8.16%
Other	2,695,324	7.83%
Cash Balance	529,408	1.54%
Capital Revenues	1,297,886	3.77%
Sale of Property	1,294,886	3.76%
Other	3,000	0.01%
TOTAL	34,417,795	100.00%

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Table III.A.1: AGGREGATE MUNICIPAL EXPENDITURES
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 (In millions Of Balboas)

	Expenditures	% of Total
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Current Expenditures	34,417,795	100.00%
Personnel	18,289,981	53.14%
Non Personnel	7,305,954	21.21%
Procurement	3,080,837	8.95%
Machinery & Equipment	336,250	0.98%
Financial Investments	35,000	0.10%
Construction by Contract	556,132	1.62%
Current Transfers	5,927,434	17.22%
Debt Service	651,915	1.89%
Contingencies	2,234,292	6.49%
 TOTAL	 34,417,795	 100.00%

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