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Panamá

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Municipal Management Assessment

Panamá

Prepared for

The Office of Housing and Urban Programs
U.S. Agency for International Development

by

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MUNICIPAL MANAGEMENT ASSESSMENT: PANAMÁ

EXECUTIVE SUMMARY

The Research Triangle Institute (RTI) under a contract with the Office of Housing and Urban Programs, U.S. Agency for International Development, developed a methodology for assessing the capacity of developing country local institutions to finance and manage public services. These **Guidelines for Conducting a Municipal Management Assessment** were field tested in Panamá with the cooperation of the USAID/Panamá mission and the Regional Housing and Urban Development Office for Panamá and Latin America.

During the field test conducted in Panamá over a three-week period, more than seventy-five 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 were:

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

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 representatives to allocate within their own corregimientos.

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 Panamá 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 municipally-owned 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 twenty percent 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, it can be compared with the proposal in 1985 to share twenty percent of the national revenues from 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.

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 antiquated 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.

Potential Strengthening Strategies

The findings of the municipal management assessment indicate that five components should be included in any strategy to strengthen municipal capacity:

- 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 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;

- 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 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.

MUNICIPAL MANAGEMENT ASSESSMENT: PANAMÁ

This document presents the findings of a Municipal Management Assessment conducted in Panamá during the period September 7 through 21, 1986, by a three-person team from Research Triangle Institute (RTI) and several members of the USAID/Panamá Mission and Regional Housing and Urban Development Office 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 council members from seventeen municipalities held in Anton.

The most important conclusions from the assessment are:

- local governments have significant potential amounts of financial resources that are not 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 two are diagnostic assessments of structural, financial, and service provision features of local government. Section III presents analyses of four individual municipalities in which field work was conducted and in Section IV, we discuss the implications of these findings as recommendations for strengthening local government in Panamá.

I. THE ROLE OF CENTRAL GOVERNMENT IN MUNICIPAL FUNCTIONS

In contrast with many governments in Central and Latin America, the central government in Panamá plays a more extensive role in direct service provision in several categories that otherwise are thought of as municipal functions, including, for example, water and sewer systems, streets and roads, public lighting and, in the metropolitan corridor only, garbage collection. This is in addition to regulatory, planning and technical assistance roles characteristic of central governments in most other countries of the region. In this chapter, we discuss these roles of the central government under the four headings:

- Regulatory
- Planning
- Service Provision
- Technical and Financial Assistance

A. Regulatory Functions

The formal position of the municipality within Panamá's public sector is defined by constitutional provision and statute. In the legal sense, municipalities have specific roles and responsibilities as autonomous public sector institutions. However, central government regulatory roles vis à vis municipalities have the potential for seriously inhibiting municipal performance of legally mandated roles. The term "potential" is used because we found clear evidence that municipal autonomy often is not respected, but we also found evidence that municipalities with greater capacity to carry out their functions experience less interference from central government agencies and ministries.

While it is commonplace to describe municipalities in Panamá as having seriously restricted autonomy, and certainly municipal officials voice this as a common complaint, there does appear to be room within the present legal structure for municipalities to exercise greater control over their activities than they actually do. Thus, within the existing legal framework and the actual practices of central institutions, there are variations among municipalities with respect to their ability to minimize or reduce central government interference.

Central government regulatory functions are exercised mainly by the Ministry of Planning and Economic Policy (MIPPE). Lesser degrees of regulatory involvement include the Ministry of Government and Justice (MGJ), the Ministry of Finance (MOF), the Ministry of Housing (MIVI), and the Comptroller General.

The principal central government constraint on municipal functions affects their sources of revenues. All property taxes are collected and retained by central government. This preemption of the property tax gives municipalities an overall resource base that is significantly smaller than comparable municipalities throughout the region. The central government also defines the commercial, industrial and other activities that fall within the municipal indirect tax base, although it does not regulate the rates municipalities may set for the activities falling within that base.

The right of municipalities to set rates or prices for other sources of income is not limited or regulated by central government. This includes the right to set charges for uses of municipally-provided services, the right to set rental or sale prices for municipal assets, and the operation of public enterprises such as slaughterhouses. For smaller municipalities, the operation of public enterprises is their largest single source of income. Thus, for these municipalities, the regulatory impact of central government on municipal income is minimal. Similarly, for many municipalities, the use of municipally-owned assets has an unrealized potential for providing larger sources of income, and this source also is not limited or regulated by central government.

Municipalities also have not been regulated directly in their use of credit. However, due to Panamá's current public debt situation and as a part of general austerity measures, by Presidential decree (number 173, 1985), all public sector institutions must go through an extensive approval process before undertaking any significant loan. For credit in the $5000 to $50,000 range, any public sector institution must clear the loan through the Comisión Financiera made up of representatives from MOF, MIPPE, and the Comptroller General. For credit over $50,000, approval of the entire cabinet is required. This limitation is not directed specifically at municipalities, and is a part of a more general financial austerity program. Thus, although municipal use of credit has not been extensive to date, as either the financial situation of the country improves and the decree is lifted or municipalities in sound financial condition are exempted, the possibilities for municipal credit operations are relatively free of central government constraints.

The lack of statutory or other limitations expressed in such terms as limiting total annual debt service (interest and amortization) to a maximum percent of current revenues (as in Brazil, for example) potentially make credit activities more of a possibility for Panamá's local governments than in other countries. However, central government officials consider the possibilities for municipal use of credit with considerable skepticism. Within the National Bank of Panamá (BNP), a credit facility has existed since 1975. First known as the Municipal Development Fund (FODEM), then as the Executive Management for Local Development (GEDEL), and finally the Department of Credits for Local

Development (DECREDEL), the credit facility was established with Interamerican Development Bank Funds. AID loan funds for the Rural Municipal Development project were funneled through FODEM, and an IDB loan of just over $6 million went into the fund.

AID disbursements through the fund exceed $5 million, and an evaluation of the Rural Municipal Development project by the Pragma Corporation in 1982 concluded that the credit program was an outstanding success, although many of the municipal activities financed were not financially successful. Far fewer funds were lent by FODEM/GEDEL with the IDB credit line. There is some correspondence between BNP and IDB officials' feeling about what failed with the additional credit. Mainly, everyone agreed that municipalities had little overall financial management capacity and that their ability to collect user charges and other own-source revenues was too limited to warrant additional lending. IDB officials in Panamá, however, also noted that the central government did not provide its expected technical assistance to municipalities and that there was no provision to increase general municipal management capability.

Although the credit institution still exists (DECREDEL), its only function now is to collect loans owed by municipalities. There is no current central government intention to provide additional loans to municipalities through the fund. The general attitude of central government officials is negative, although the previous experience suggests that where general management and financial management improvements are made, municipalities are not bad credit risks.

From the interviews we conducted, the greatest regulatory irritant to some municipal officials is the central review of municipal budgets, both current operations and capital investments, particularly the current restrictions on borrowing. The budget review function, performed by MIPPE, is intended mainly for two purposes:

- to coordinate municipal investment planning with overall national economic and social development planning; and

- to be certain that municipalities with limited capacity to plan and execute programs do not develop unrealistic budget programs.

The actual use of this review varies considerably by municipality. In a meeting attended by mayors and some council representatives of seventeen municipalities, several officials spoke negatively of central government's ability to prevent or delay proposed municipal expenditures. However, other municipal officials in individual interviews reported that MIPPE's review is mainly pro forma, that their perogatives to make revenue generation (within legal limits) and spending decisions are respected during the central budget review and approval process. For example, staff of the municipality of San Miguelito reported that their budget is received typically by MIPPE without changes, as did officials in David, La Chorrera and Chitré.

Where the review function may be more extensive is in very small municipalities where the regional MIPPE representative actually prepares the budget. In other cases, the local MIPPE representative may participate in the budget preparation process as a member of a budget commission (as in Chitré). In the latter case, MIPPE's input is only as one person among several.

Based on the interviews we conducted, we conclude that most municipalities do not find the central government review to be restrictive or onerous. Certainly, MIPPE officials describe the review as non-restrictive for those municipalities that have adequate capacity to plan and execute their budgets.

B. Planning

Several central government institutions are involved in the municipal planning process. The MIVI sets the norms and regulations governing zoning and land use planning. MIPPE requires each municipality to prepare a general master plan and a development or investment plan. And finally, the municipality is a participant in the national economic and social development planning process which, while not governing municipal decisions, does result in central ministry investments carried out within municipalities.

The control of land use and restrictions on location of different types of structures is a mixed activity between central and municipal government. While zoning and land use planning is a municipal function, central government through MIVI determines the regulations that municipalities are required to follow. These regulations mainly govern municipalities' control over placement of structures on lots, licensing of construction and control over construction materials and practices. MIPPE and MIVI provide planning assistance to municipalities in order to implement land use planning and control.

Municipalities have a great deal of difficulty in actually exercising land use control, however. Permanent and temporary structures are placed in rights of way, mixed commercial and residential areas exist where municipal plans prohibit, and municipalities rarely have sufficiently trained staff to enforce regulations. In addition, central government's own activities within municipalities may or may not follow local restrictions. For example, the mayor of Santiago described a central government housing project which included latrines as the only method of sewerage disposal that was located, over municipal objections, in a middle income housing area. Other than specific examples of these types of problems, however, very little opinion is expressed one way or the other. Few municipalities appear to be very concerned at this time with regulating land use.

The preparation of master development plans, supervised and assisted by MIPPE, requires that the municipality develop a general statement of its main problems and a plan of action for addressing those problems. This is more of a general statement of objectives than it is a plan of action for most municipalities. However, MIPPE does bring the municipalities into the national development perspective through this process. For example, over a ten-day period in April, 1986, MIPPE brought officials from all sixty-five municipalities together to start their planning process. Individuals in municipalities who participated in that process reported that as a device for learning about problems in other municipalities and potential solutions, it was very useful.

Municipalities are brought into the national planning process also through a regional structure. Municipal council members automatically also are members of provincial councils and mayors are members of provincial administrative planning committees. The function of the provincial council is to participate in the design and planning of central ministry programs to be carried out within the province. This is participation in the priority setting and planning process, but not participation in the design and execution of projects.

Two interpretations of municipal participation in this planning process are possible. As a municipal process, it clearly places regional and national priorities over those of the municipality. Thus, one can conclude that it is deficient as a mechanism for municipal determination of investment priorities. On the other hand, recognizing it as at least a partial decentralization of the national planning process, it gives municipalities a degree of involvement not common in other countries in the region. For example, in Peru and Bolivia where regional development planning is fairly extensive, municipalities have a more tenuous input into the process than in Panamá. Ideally, municipalities have the opportunity to influence the sectoral plans of such agencies as Public Works, Agriculture, or Industry and Commerce through this process. Practically speaking, there is no assurance that the central ministries respect the provincial priority-setting process, and any one municipality's success in achieving its investment objectives through this process is dependent on its political strength within the province and its ability to ignore the provincial process and try to influence individual ministries directly.

What makes this provincial planning process critical to municipalities at this time is that the central government is virtually the only source of capital investments. Municipal expenditures on capital investments represent less than ten percent of total expenditures (see Section II.B. for more extended discussion). Thus, for streets to be built, water and sewer systems to be installed or extended, and for other similar investments, municipalities currently have to influence the various central ministries that carry out these functions either directly or through the provincial planning process. Were municipalities to develop significant sources of their own capital investment

funds, then the provincial planning process could become much more a process to coordinate municipalities' own decisions with those of central government. MIPPE officials acknowledge that municipalities currently do not have an active role in the planning process. From MIPPE's point of view, the problem stems from the great variation that exists among municipalities. There are some municipalities that are so economically impoverished that they have to be treated on a multi-sectoral basis with heavy central government interventions necessary. Others, like David, Chitré, San Miguelito, for example, have a capacity to utilize their own source revenues, but need to consolidate their administrative and financial management capacity before they can play a more active role in the economic development planning process.

MIPPE currently is considering a strategy designed to give medium and larger municipalities a greater role in determining the execution of programs within their jurisdictions. The nine being considered include such as David, San Miguelito, Chitré, Concepción, Penonomé and Santiago. MIPPE has formulated a development and investment plan in conjunction with these selected municipalities, and each will implement the plan in coordination with the different central government agencies. These municipalities will have a greater opportunity to determine the priorities by which plans are executed within their districts as the provincial allocation process will be bypassed.

There is concern in MIPPE about municipalities' capability to carry out this idea. No programs are planned to strengthen municipal management and financial capabilities, and there is skepticism about what will happen if municipalities are put in greater control of national ministry investments.

C. Services

As already noted, many of the services often provided by local governments in other countries are centralized in Panamá. These services delivered by central government ministries include water, sewers, the construction and maintenance of streets and storm drainage systems, and electricity. For municipalities located in the metropolitan corridor (Panamá City, San Miguelito, and Colon), garbage collection is provided by DIMA. Because the population of Panamá is concentrated in the metropolitan corridor, the centralized delivery of these basic services has worked fairly well, i.e., public services are available and provided to the majority of the population. As indicated in Table I.C.1 more than eighty percent of the population has access to safe drinking water, eighty-eight percent have basic sanitation services, and more than sixty-five percent have electricity. Rates of coverage for these same basic services vary widely by province, however. For example, water service coverage ranges from ninety-four percent in Panamá (province) to forty-one percent in Darien.

Table I.C.1

WATER, SANITATION AND ELECTRICITY
COVERAGE (PERCENT OF ALL HOUSING)

	1960	1970	1980
With safe drinking water	56.3	64.3	80.8
With sanitation	61.6	71.7	88.1
With electricity	42.3	51.9	65.8
Percent urban population	41.5	47.6	49.7

Source: Contraloria General de la Republica, Dirección de Estadistica y Censo, Panamá en Cifras, Panamá, November 1984, pp. 208-211. Percent urban obtained from Table 10, Volume II, Census of Population and Housing.

For both metropolitan and non-metropolitan areas, the two central government services that are provided directly that are of greatest concern to municipalities are water and sewer systems and streets and roads. While central government services for these functions are excellent in some instances, many municipalities feel not all areas of the population receive the services they should. Each of these two major service areas are discussed separately below.

1. Water and Sewer Systems

The construction of water treatment facilities, water lines, aqueducts, and sewerage systems for areas with a population concentration of at least 500 inhabitants is the responsibility of the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN). However, the figures on the coverage of the total population by IDAAN can be misleading. Only fifty-five percent of all water and sewerage services in Panamá is provided by IDAAN. Another six percent is provided by municipalities or private companies. Thus, the figures in Table I.C.1 showing eighty-one percent of the total population with access to potable water can be misleading as an indicator of the centralization of services as they mask the actual distribution of services and the penetration of service in non-eligible areas. As Table I.C.2 shows, water provision varies widely by province.

Table I.C.2

ESTIMATES OF POPULATION IN LOCALITIES WITH MORE THAN 500 INHABITANTS WITH ACCESS TO SAFE DRINKING WATER BY PROVINCE, 1984

Province	Population in Localities	Population Served	Percent
Total	1,391,175	1,127,898	81.1
Metro Panamá	680,864	631,947	92.8
Colon	100,912	88,865	88.1
Total Interior	609,399	407,086	66.8
Bocas del Toro	27,760	2,025	72.0
Cocle	75,692	48,549	64.1
Chiriqui	190,223	119,276	62.7
Herrera	50,102	42,359	84.6
Los Santos	39,113	37,391	95.6
Panamá Este y Darien	22,635	14,762	65.2
Panamá Oeste	122,635	88,148	71.9
Veraguas	57,529	49,054	85.3
Comarca de San Blas	23,684	5,522	23.3

Source: IDAAN, Planning Office, Physical Planning Unit.

If the data are disaggregated further, IDAAN's actual role is somewhat diminished, and a niche at least for municipal coprovision of water is more apparent. Table I.C.3 illustrates the coverage issue.

Table I.C.3

WATER SERVICE PENETRATION

Total Population (000's) 1,929 100%	IDAAN Target Population	1983 Population Served by IDAAN	Population Served by Other Organized Systems	Population Served by Informal or Non-Organized Systems
Population	1,350	1,057	114	752
% of Total Population	70%	55%	6%	39%

Source: IDAAN, Operating Statistics.

As Table I.C.3 shows, thirty percent of the total population (column 1) is not targeted for IDAAN services (living in communities with less than 500 inhabitants). Thus, fifteen percent of the total population (column 1 - column 2) are intended IDAAN beneficiaries but are not served (1983), and overall, forty-five percent of the total population are not served by IDAAN. Six percent of the total population (column 3) are served by other municipal or private, but organized community systems. Finally, thirty-nine percent of the total population are drinking water from individual sources such as wells, directly from streams or rivers, or other unorganized systems.

Comparable figures for sewer systems are not available, but not all of the IDAAN-served population has access to IDAAN sewer systems. Many households receiving IDAAN water, outside Panamá City and Colon, have septic tank systems or latrines. Thus, while Panamá compares very favorably with other countries in terms of water and sanitation, there are service gaps in safe water systems and significant gaps in safe sewage treatment systems.

Several issues are raised by these facts. For instance, what role might municipalities play in providing services to those populations either ineligible for IDAAN service or those eligible but unserved? Could municipalities cooperate with IDAAN in the provision of some intermediate service that then would increase the number of communities eligible for IDAAN service (e.g., a way station that could pump

water to a remote area that is otherwise ineligible but would benefit from IDAAN service)? Could municipalities assist in the collection of user charges for service provided, and potentially retain some portion of this revenue to be applied toward intermediate projects (for example, the way station discussed above)?

Part of the cost of water and sewer service delivery is covered by valorization and user charges with valorization a considerably lower proportion. For example, for 1986, IDAAN reported that only $2 million of $22 million in total revenue were collected through valorization. User charges may be applied on a metered basis or as a flat rate per household connection. In both cases, problems are encountered. For example, IDAAN reports that only forty-five percent of households are metered. In addition to the problem of estimating water usage presented by this lack of metered connections, collections are reported as only forty percent of total potential revenues.

Thus, IDAAN's coverage is less than what some municipalities desire, and it is clear that IDAAN's service charge collections are no better than most municipalities' collections for other user services. A role for municipalities in service extensions to areas outside IDAAN's service mandate, and perhaps a collaborative role in rate collections are both within reason for consideration.

2. Streets and Roads

The Ministry of Public Works has sole responsibility for the construction and maintenance of roads and bridges in both rural and urban areas. The road network of Panamá is extensive and well-maintained. More than seventy-five percent of all roads have hard surfaces. Costs of these services are not covered through user charges or valorization, except in the case of Panamá City where the costs of construction or widening of a few streets has been offset through the use of valorization.

In general, decisions on where to expand or to provide new services are made at the provincial level by the concerned Ministry in conjunction with the provincial council. As discussed above in I.B., the provincial council maintains a list of the "priority" projects in the province developed through input by the individual districts. In consultation with the provincial council, the Ministry can select projects to undertake from those listed as priorities. Factors affecting the decision on which projects to fund may include the population density of the area under consideration, the extent of the existing road network in the area, and the level of other services already available in the area (such as water and electricity).

Based on our discussions with various municipal level officials and our own observations, it appears that MOP's priorities are much higher for new road construction than for operation and maintenance. Most municipalities seem to have far fewer complaints about the need for new roads than about the need for patching and resurfacing. In

particular, municipal officials complain that IHRE (electricity), INTEL (telephones) and IDAAN activities are not well coordinated with MOP. All of these prior agencies are destructive of public streets during their construction activities, but neither they nor MOP seem responsive to more than covering over the damaged areas with loose materials. In each municipality visited, we were shown specific instances in process at that moment. Given sufficient resources, municipalities would seem to be logical candidates for an expanded role in street repair and maintenance after MOP construction. In fact, each of the municipalities visited does expend part of its resources in repairing damaged streets when it becomes apparent that MOP will not meet its responsibility.

D. Technical Assistance and Training

Technical assistance has been provided by central government agencies to municipalities through formal and informal training programs as well as through the analysis and design of municipal service delivery programs. In addition, national ministries such as MIPPE provide direct technical assistance services to municipalities by preparing diagnostics, preparing development and land use plans, and providing information support to municipalities' own planning processes. Formal training primarily has been in the form of courses on techniques of municipal administration, the legal and jurisdictional characteristics of municipalities and the roles of specific municipal employees such as the Engineer and the Treasurer. The National Directorate of Local Governments (within MGJ) holds primary responsibility for the interpretation of laws and municipal codes and the dissemination of findings and assistance in this area. Formal management training courses have been designed and implemented by the Central Office of Capacitation and the Department of Local Government (both in MIPPE) and also in conjunction with MGJ. Current activities in these areas almost have come to a halt as resources have been reallocated toward higher priority functions.

Specifically, MGJ has assisted municipalities through the provision of individual short-term (2-3 days) seminars on the legal jurisdiction of municipalities, for example, in the collection of tolls and taxes. These seminars usually are held in an individual municipality or with a provincial council, and are staffed by members of the National Directorate, often in conjunction with outside consultants. The MGJ primarily sees their role as one of clarifying the jurisdiction and legislative mandates of municipalities.

Several other activities were identified by the National Directorate (MGJ) as areas in which they would like to expand, and for which they saw a role. Specifically, they were very enthusiastic about the prospect of developing further courses for strengthening municipal staffs in finance, management techniques, and planning. They also suggested the design of two types of manuals for distribution to municipalities: one on the technical aspects of management, and another on municipal codes.

Concerning the potential use by municipalities of valorization as a means of financing infrastructure, the Directorate was unaware that municipalities were legally capable of using this method. After being alerted that it was in fact included in the law (law 94, Art. 65), they expressed an interest in further investigating both the law and its potential usage in municipalities. Clearly, the lack of information regarding this potential revenue source deserves further consideration, and the role of the MGJ in disseminating information on the existence of the law and its potential usage should be considered.

Training has included short-term (one or more weeks) courses or seminars in municipal administration and one joint MIPPE/MGJ eight- month course. The eight-month course involved about a dozen individuals receiving training in general management and finance of public sector institutions and some focus on municipal administration. Following the course, these individuals were placed in national and local government positions with their salaries to be paid for three years by MGJ. The hope is that the employing agencies will find their experience and skills sufficiently valuable to put them directly on the institutional payroll after MGJ support ends. The short courses have been designed to cover municipal organization structure, project design and planning, the source and use of resources, personnel management, service delivery, budgeting, accounting, and regional development strategies. The primary site for these courses was the Center for Training at Rio Hato which no longer is available for this purpose. (Rio Hato now is used exclusively as a training site for the National Guard.)

Technical assistance also is provided to individual municipalities in the logistics of specific service delivery, for example, in the design of garbage collection systems, cemeteries, and slaughterhouses. Specifically, this type of assistance has been provided by MIPPE. In addition, the Comptroller General also provides a form of technical assistance through municipal auditors. Each municipality is assigned an auditor and support staff, employees of the Comptroller, to perform external audit functions (on a fulltime basis). Municipalities with total budgets of over $500,000 reimburse the central government for these services. Informally, the auditor is often a source of financial management technical assistance.

Several evaluative studies have been published by MIPPE on specific municipal services and have been provided to the particular municipality under study. However, these evaluation studies have had little impact on improved service delivery. For example, a study is available on improvements for garbage collection in David. The alternatives formulated for improving collections and service delivery have not been implemented and the issues still remain unsolved. While technical assistance in the form of studies has been provided, it appears that there is little or no technology transfer. The issues which surface in considering technology and skill transfer reduce to:

- Skill transfer vs. studies: to what extent is it effective to develop studies in the absence of technology/skill transfer and commitment (or "buy in") from municipal counterparts?

- Will the system/recommendations be used or implemented?

- After central government officials leave what will have been accomplished?

It is difficult to measure how much skill transfer has taken place; technology and skill transfer goals have not been established from the local government perspective. It is clear from our interview data that very little technology transfer has taken place, primarily because national-local government relationships have not been established clearly nor has this relationship been considered a primary goal. Hence what transfer has occurred, is due to informal relations established during the process.

The Central Training Office at MIPPE provides formal management training courses for the public sector while the local government department provides short seminars in conjunction with outside consultants and institutions. However, as resources have been allocated to higher priority functions, training activities have been reduced considerably. Although the Department of Local Governments would like to develop more training programs, it has neither qualified personnel nor the financial resources to do so. Last year a seminar was developed for municipal engineering officers with special funds obtained specifically for this purpose.

Although not currently utilized, the potential role of the Department of Valorization (MOP) in providing technical assistance should be considered. Currently, no central means is available to municipalities for the provision of information on valorization or assistance in the design of projects using this method. In fact, MOP's Valorization Department was unaware that the law even had a provision for the use of valorization by municipalities. However, when this point was clarified, the Department volunteered the use of its staff in assisting municipalities in the design and implementation of pre-feasibility studies, and in the development of official project plans. Specifically, a pre-feasibility study would be necessary to determine both the engineering design and project costs, as well as the financial feasibility of the use of valorization for cost recovery from the prospective beneficiaries of the project.

II. MUNICIPAL MANAGEMENT AND FINANCE

A. Structural Characteristics

There are 65 municipal governments corresponding to 65 geographic districts (Distritos) in Panamá. 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 from 529,372 to 1,552.

Elected Municipal officers include the mayor and municipal council representatives, 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. Mayors, who were first elected in 1984 and serve a five-year term, are non-voting members of the municipal council. Representatives also serve a five-year term. In addition to their role as members of the municipal council, each representative also is a member of the provincial council. Those representatives elected at-large rather than from 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. Thus, the formal political structure provides for significant interaction between elected officials and citizens who often are organized into both geographic and economic or social groups.

The structure of municipal government ranging from the most basic neighborhood organization to community organizations 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.

B. Municipal Finances

Total income for all municipal governments in 1984 was $34 million, of which only $687,000, or less than two percent, were transfers from other sources, mainly the central government. The extent to which municipalities in Panamá generate virtually all of their own resources without relying on central government financial transfers contrasts greatly with other countries in the region where central government financial transfers more commonly range from twenty-five percent to sixty percent. On the other hand, total municipal income, including central transfers, represents only two percent 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 ten to fifteen percent. The difference between Panamá and most other countries in the region is that the central government in Panamá 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 discusses areas for potential additional revenue generation. Important considerations to keep in mind are the extent to which sources of

municipal income are responsive to changing economic conditions, the extent to which municipalities can create or influence the conditions under which their revenues can be increased, and the extent to which possible sources of additional income are feasible.

The largest single source of municipal income consists of various indirect taxes on commercial and industrial activity and licenses. For 1984, these indirect taxes accounted for approximately $23 million (sixty-eight percent) (see Table II.B.1). Of this $23 million, nearly $16 million (forty-seven percent) are taxes on virtually all commercial activities, including service industries such as banking and financial institutions. Second among the indirect taxes are licenses for personal and commercial vehicles ($7 million or twenty-one percent of total revenues). Rental of fixed and other assets account for nearly $5 million (fifteen percent) of total revenues. Capital income, as distinct from current revenues, was only $1.2 million (three and one-half percent) in 1984, and was exclusively due to sales of fixed assets (sales of municipal lands). Borrowing by all municipalities represents a fractional part of one percent of total revenues.

Table II.B.1

AGGREGATE MUNICIPAL REVENUES: 1984

	Revenues	% of Total
Current Revenues	33,119,909	96.23%
Tax Revenues	23,486,185	68.24%
Direct Taxes	3,630	0.01%
Indirect Taxes	23,482,555	68.23%
Commercial & Services	15,722,053	45.68%
Industrial Activities	951,192	2.76%
Vehicle & Other Licenses	6,774,340	19.68%
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 Various	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%

Source: Ministry of Planning and Economic Policy, Presupuestos Municipales: 1984-1985.

Each municipality is legally entitled to determine its own indirect tax base and rates to be applied within that base. Law 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.

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 also can 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 come from indirect taxes, but within that category, taxes on commercial activities and licenses on vehicles are almost equal (thirty-four and thirty-six percent of total, respectively). Of David's total 1986 revenues of $1,484,000, on the other hand, only twenty percent come from vehicle licenses whereas commercial indirect taxes account for forty-six percent 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).

The most important characteristic of municipal finance is the potential for revenues that are not now 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 sixty percent of their potential in-

direct taxes. For example, the municipality of Chitré 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 a number of categories of commercial activity now in Chitré did not even exist in 1960. No tax collections are possible for those activities not contemplated when the current statute was enacted. Thus, in cities 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 twenty percent of indirect taxes included in the regimen 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 ten percent of its commercial taxes are uncollected, and estimates from other municipalities range from fifty to ten percent.

User charges for services rendered by the municipality, when viewed in the national aggregate data, appear insignificant (less than one percent). However, if the budgets for the metropolitan cities of Panamá 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 a 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 fifty percent of that amount this year. Thus, not only is David subsidizing more than fifty percent of the cost of garbage collection, but the undercollected service charges amount to fifteen percent of total revenues. In Chitré, the budget for garbage collection is $14,000 annually (three percent 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 thirty-five percent of municipal land is occupied by squatters. La Chorrera, on the other hand, has an aggressive campaign to register 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 where the incentives to the private sector are insufficient, their inefficient operation more often drains financial resources rather than generates them.

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 as noted previously neither most central government officials nor municipal officials are aware of this.

C. Municipal Services

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 II.C.1 shows, personnel (servicios personales) represents the largest single expenditure: almost $18 million out of a total $32 million (fifty-five percent). This figure, however, does not include an additional $2 million in insurance/social security (Seguridad Social), which increases personnel costs to sixty-three percent of total expenditures.

Table II.C.1

AGGREGATE MUNICIPAL EXPENDITURES: 1984

	Expenditures	% of Total
Current Expenditures	34,417,795	100.00%
Personnel	18,289,981	53.14%
Non Personnel	3,305,954	9.61%
Procurement	3,080,837	8.95%
Machinery and Equipment	336,250	.98%
Financial Investments	35,000	.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%

Source: Ministry of Planning and Economic Policy, Presupuestos Municipales, 1984-1985.

Other major expenditure categories include materials and supplies (nine percent), other (non-personnel) services (nine percent), and transfers to other institutions. This latter category is aggregated in Table II.C.1 which shows total transfers at $5.9 million (eighteen percent 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 eight percent 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 for central government employees such as auditors and audit staff assigned to municipalities.

Although MIPPE reports municipal investment expenditures in 1984 at $6.7 million (twenty-one percent) and comments favorably on the fact that municipalities are therefore investing in infrastructure (Presupuestos Municipales, 1984-1985, page 2c), the figure is misleading. 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. Actual capital-type investments 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 (four percent 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.

The $2 million in contingencies are 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 (nine percent of total expenditures).

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 MOP 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 a meeting of seventeen 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 Panamá 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 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 streets that

are in desperate need of repair because of construction activities by INTEL, IHRE, 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.

D. Inter-Municipal Cooperation

A significant possibility for enhancing the role of municipalities is the renewal (in 1985) of a formal inter-municipal association, APCI (the Association of Inter-Municipal Cooperation). First created in 1945, APCI functioned until 1968 when it was replaced with the National Assembly of Representatives and the Association of Mayors. 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, representatives 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. 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.

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 mechanisms for establishing funds for the association, the level of contributions expected from its members and the statutes of the organization are being formulated. 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 yet to receive formal recognition from the central government.

III. INDIVIDUAL MUNICIPALITIES

Four individual municipalities were selected for field visits requiring three to six person days per municipality. Selections were made by USAID/Panamá and RHUDO to focus on a combination of non-metropolitan and metropolitan (canal) corridor cities and varying population sizes. San Miguelito was selected from the canal corridor because it is the most rapidly growing city and faces severe unemployment problems. La Chorrera also is in the canal corridor with an employment base closely tied to Panamá City. David and Chitré are economically central municipalities within their respective provinces and are outside the canal corridor area of influence. Table III.1 provides a summary of the characteristics of the four municipalities.

Each municipality is described in a similar format to facilitate comparisons. The focus of attention is on the municipality's general management and financial management capacity, specific problems both as perceived by municipal officials and the RTI team, and possible areas for improvement.

Table III.1

SUMMARY OF MUNICIPAL CHARACTERISTICS

	San Miguelito	Chitré	David	La Chorrera
Population, 1985	200,000	32,500	84,000	76,000
Revenues (per capita)	6.9	15.4	16.1	17.7
Expenditures (per capita)	5.2	16.0	16.6	17.7
Municipal Personnel	407	100	201	250
Service Responsibilities				
Parks	*	*	*	*
Cemeteries		*	*	*
Social Services	*			*
Solid Waste Collection		*	*	*
Slaughterhouse		*		*
Market		*	*	*

A. Municipality of San Miguelito

1. Introduction

San Miguelito, Panamá's second newest city and second most populous, is a rapidly growing residential community located just north of Panamá City in the metropolitan corridor. The population is estimated at more than 200,000 persons. Unemployment exceeds twenty-five percent with perhaps an additional fifteen percent underemployed. Little private commercial activity exists in the area. Much of the area was settled through land invasions; hence, the majority of the municipality is unplanned. Population density in this irregularly developed city is the highest in Panamá.

The primary public services such as water, electricity, road maintenance, and garbage collection are provided by central government. Service quality maintained by central government is poor. Garbage collection was reported as highly irregular, varying from collection once per week, per ten days, or not at all. Garbage was present in all areas of the municipality regardless of the level of infrastructure development or income. Widespread dumping was apparent in both residential and fringe areas. Road maintenance appeared to be poor in all but the most central avenues of the municipality. Drainage also appeared to be inadequate and was compounded by the presence of garbage as well as potholes and roadside disintegration. More than eighty percent of the population do have access to safe drinking water, however.

Local branches of the central government agencies responsible for public service delivery are present in the municipality. These include offices of IDAAN, IHRE, and MOP. These agencies generally were cited as ineffective and unresponsive to municipality requests and priorities. Several housing projects developed by the Ministry of Housing (MIVI) were shown during a tour of the city. It was reported that the majority of these MIVI projects had not been completed because of invasions by squatters of the partially completed housing.

The most formidable problems in San Miguelito are primarily social in nature. The high rates of unemployment and underemployment are especially severe considering the age structure of San Miguelito, where more than thirty percent of the population are actively enrolled in school. Approximately eighty-five percent of housing are single-family homes, 25,000 of which are households headed by single mothers. High rates of teenage pregnancy and prostitution were cited as factors contributing to the overall social problem.

In general, city officials see the municipality's main roles as promoting the economic development of the community and responding to the severe social problems. City personnel were not particularly oriented toward public works type local service provision, but were more interested in employment generation activities and reducing the socio-economic problems of the community.

2. Financial Management

The primary revenue source for San Miguelito is the indirect tax on commercial activities and vehicle license fees, accounting for twenty-eight percent and forty-six percent respectively of total revenues in 1985 (see Table III.A.1 for a percentage distribution of revenues and expenditures). As also is evident in III.A.1, industrial activities account for virtually no municipal revenue (less than two percent), reflecting the lack of industrial development. All indirect taxes together provided seventy-six percent of total revenues in 1985, an increase from sixty-three percent in 1980.

After indirect taxes, a scattering of other, non-tax sources including rental of fixed assets (less than one percent), sale of license plates and similar plaques (four percent), user charges (three percent) and transfers from central government (four and one-half percent) make up the remainder of current revenues. Capital revenues, three percent of total revenues, exclusively are from sale of municipally-owned property, most of it to individuals who occupied municipal land and built homes.

The pattern over the 1980 to 1985 period was relatively stable with one exception--indirect taxes increased over the period and sale of municipal property decreased, the latter from twenty-two percent to three percent.

The municipality has had no credit operations in its history, hence debt service expenditures are zero. Personnel expenditures have varied from fifty-six percent (1985) to sixty-nine percent (1984). Typically the municipality nas maintained a surplus from year to year as is evident in the ratio of revenues to expenditures (see Table III.A.2: Financial Balance Ratios). In 1983, the ratio was only 0.88 and in 1982 was 0.98, reflecting for those two years a deficit or expenditures exceeding revenues. However, for the other four years from 1980 through 1985, the ratio always exceeded 1.00, ranging from 1.01 in 1984 to 1985's high of 1.33.

The general pattern of fiscal solvency is somewhat misleading, however. In every year except 1985, had it not been for central government transfers, the municipality's expenditures would have exceeded revenues. These transfers are not formula-based, nor are they predictable from year to year. Rather, the pattern seems to have been the municipality spending in excess of revenues and then appealing near the end of the year to central government for assistance. While the municipality can hardly be described as dependent on central government for revenues, compared with municipalities throughout Central and South America, the transfers received from central government are for current budget subsidies and are not invested particularly in any activity with lasting economic benefits (the municipality carried out no investment or capital projects in the 1980-85 period).

THE REPUBLIC OF PANAMA
MUNICIPALITY OF SAN MIGUELITO
Table III.A.1: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION

	1980		1981		1982		1983		1984		1985	
	Bs	%	Bs	%	Bs	%	Bs	%	Bs	%	Bs	%
Total Revenues	1458312		1640443		1797765		1514549		1779438		1456444	
Current Revenues	1141166	78.25%	1405703	85.69%	1508620	83.92%	1429632	94.39%	1659904	93.28%	1409241	96.76%
Direct Taxes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Indirect Taxes	922911	63.29%	1019903	62.17%	1222004	67.97%	1250254	82.55%	1377249	77.40%	1102432	75.69%
Commercial & Services	418760	28.72%	473118	28.84%	569848	31.70%	595802	39.34%	620891	34.89%	411285	28.24%
Industrial Activities	21461	1.47%	21824	1.33%	22199	1.23%	29583	1.95%	27889	1.57%	19749	1.36%
Vehicle & Other Licenses	482690	33.10%	524961	32.00%	629957	35.04%	624869	41.26%	728469	40.94%	671398	46.10%
Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other, Non-Tax Revenue	218255	14.97%	385800	23.52%	286616	15.94%	179378	11.84%	282655	15.88%	306809	21.07%
Rental of Assets	242	0.02%	274	0.02%	0	0.00%	0	0.00%	4341	0.24%	1956	0.13%
Sale Of Assets and Other (placas)	27975	1.92%	40054	2.44%	43441	2.42%	51895	3.43%	59293	3.33%	60703	4.17%
Rates for admin. serv. & rights	18623	1.28%	19253	1.17%	42092	2.34%	56123	3.71%	57799	3.25%	38806	2.66%
Transfers	116129	7.96%	277853	16.94%	75000	4.17%	81871	5.41%	45796	2.57%	64749	4.45%
Various	55286	3.79%	48366	2.95%	112466	6.26%	76267	5.04%	74517	4.19%	139523	9.58%
Cash Balance	0	0.00%	0	0.00%	13617	0.76%	-86778	-5.73%	40909	2.30%	1072	0.07%
Capital Revenues	317146	21.75%	234740	14.31%	289145	16.08%	84917	5.61%	119534	6.72%	47203	3.24%
Sale of Property	317146	21.75%	234740	14.31%	289145	16.08%	84917	5.61%	119534	6.72%	47203	3.24%
Total Expenditures	1297537		1536064		1829841		1718436		1753271		1091780	
Current Expenditures	1297537	100.00%	1536064	100.00%	1829841	100.00%	1718436	100.00%	1753271	100.00%	1091780	100.00%
Personnel	853014	65.74%	921049	59.96%	1062706	58.08%	1165025	67.80%	1212490	69.16%	614705	56.30%
Non Personnel	81591	6.29%	110206	7.17%	102675	5.61%	54884	3.19%	107873	6.15%	62943	5.77%
Procurement	83288	6.42%	130474	8.49%	221061	12.08%	187079	10.89%	156711	8.94%	121753	11.15%
Machinery & Equipment	7620	0.59%	8114	0.53%	3483	0.19%	1376	0.08%	1500	0.09%	64135	5.87%
Construction by Contract	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Current Transfers	259883	20.03%	349169	22.73%	418851	22.89%	302577	17.61%	269638	15.38%	223792	20.50%
Debt Service	5390	0.42%	5104	0.33%	5416	0.30%	4513	0.26%	5059	0.29%	3159	0.29%
Contingencies	6751	0.52%	11948	0.78%	15649	0.86%	2982	0.17%	0	0.00%	1293	0.12%
BALANCE (REVENUES - EXPENDITURES)	160775		104379		-32076		-203887		26167		364664	
POPULATION	160000		169931		180017		190239		200584		211038	
RATE OF INFLATION	1.00		1.07		1.12		1.14		1.16		1.17	

THE REPUBLIC OF PANAMA
MUNICIPALITY OF SAN MIGUELITO
Table III.A.2: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(Financial Balance Ratios)

	1980	1981	1982	1983	1984	1985
TOTAL REVENUES / TOTAL EXPENDITURES	1.12	1.07	0.98	0.88	1.01	1.33
CURRENT REVENUES / CURRENT EXPENDITURES	0.88	0.92	0.82	0.83	0.95	1.29
DEBT SERVICE / TOTAL REVENUES	0.00	0.00	0.00	0.00	0.00	0.00
DEBT SERVICE / CURRENT REVENUES	0.00	0.00	0.00	0.00	0.00	0.00
DEBT SERVICE / TOTAL EXPENDITURES	0.00	0.00	0.00	0.00	0.00	0.00
DEBT SERVICE / CURRENT EXPENDITURES	0.00	0.00	0.00	0.00	0.00	0.00
PERSONNEL / TOTAL EXPENDITURES	0.66	0.60	0.58	0.68	0.69	0.56
PROCUREMENT / TOTAL EXPENDITURES	0.06	0.08	0.12	0.11	0.09	0.11
TAX REVENUES / CURRENT REVENUES	0.81	0.73	0.81	0.87	0.83	0.78
NON-TAX REVENUES / CURRENT REVENUES	0.19	0.27	0.19	0.13	0.17	0.22
CAPITAL REVENUES / TOTAL REVENUES	0.22	0.14	0.16	0.06	0.07	0.03

The municipal budget also has not kept up with either the rate of inflation or the growth in population. Tables III.A.3 and 4 illustrate these points respectively. In constant Balboas (1980 base), total municipal expenditures declined from $1.3 million in 1980 to just over $0.9 million in 1985. Inflation rates have not been particularly severe in Panamá (the 1985 index of consumer prices is 1.17 compared with the 1980 base of 1.00), but San Miguelito was not able to match this relatively low rate. This problem reflects mainly the lack of responsiveness of the municipality in changing the indirect tax base and rates to match changing economic conditions.

A new Mayor and Council, who took office in late 1984, has made some impact on this situation. A new municipal indirect tax code (Regimen Impositivo) went into effect in January, 1986, and estimated revenues for 1986 were for over $2.4 million, an almost $1 million increase over 1985. Halfway through the year, more than $1.6 million in revenues had been achieved, so that it appeared that the municipality would achieve, or come very close to, its 1986 goal.

This 1986 increase also improved the municipality's attempts to at least keep up with the rate of population growth. Before 1986, per capita expenditures had declined from $8.1 to $5.2. If projections for 1986 are met, the municipal budget should rise to just about $10.0 per capita. While the increase is significant, and very hopeful, it is among the lower per capita budgets among the major municipalities. For example, La Chorrera's total per capita expenditures for 1985 were $17.7, reflecting overall a much healthier financial situation.

Generally, San Miguelito's financial situation reflects two problems--an overall desperate economic situation with comparatively few resources for the municipality to tap and a decided weakness in tax collections on those activities which are economically successful. The former private sector situation is remediable only in the long term. The latter could be remedied more quickly.

Non-payment of indirect taxes affects about twenty percent of the indirect tax base. In addition, considerable (no quantitative estimate was available from the municipality) land owned by either the municipality or the Ministry of Housing is occupied by individuals who have built homes, but have paid for neither licenses nor the value of the land. The central government-owned land is available to the municipality under a program in which Ministry of Housing projects and, in some cases, undeveloped land, are turned over to the municipality. While the municipality has just begun to identify occupied municipal land and to look at the central government program, considering performance in earlier years and looking at other municipalities, it is not unreasonable to estimate the sales potential of municipal properties at $200,000 to $500,000 instead of 1985's $47,000. In 1980, sales of municipal property exceeded $300,000, and the much smaller municipality of La Chorrera should exceed $300,000 in 1986 with a more aggressive campaign of identification and collections.

THE REPUBLIC OF PANAMA
MUNICIPALITY OF SAN MIGUELITO
Table III.A.3: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(In Constant 1980 Balboas)

	1980	1981	1982	1983	1984	1985
Total Revenues	1458312	1528838	1606582	1326225	1533998	1242700
Current Revenues	1141166	1310068	1348186	1251867	1430952	1202424
Direct Taxes	0	0	0	0	0	0
Indirect Taxes	922911	950515	1092050	1094793	1187284	940642
Commercial & Services	418760	440930	509248	521718	535251	350926
Industrial Activities	21461	20339	19838	25905	24042	16851
Vehicle & Other Licenses	482690	489246	562964	547171	627991	572865
Other	0	0	0	0	0	0
Other, Non-Tax Revenue	218255	359553	256136	157074	243668	261782
Rental of Assets	242	255	0	0	3742	1669
Sale Of Assets and Other (placas)	27975	37329	38821	45442	51115	51794
Rates for admin. serv. & rights	18623	17943	37616	49144	49827	33111
Transfers	116129	258950	67024	71691	39479	55247
Various	55286	45075	100506	66784	64239	119047
Cash Balance	0	0	12169	-75988	35266	915
Capital Revenues	317146	218770	258396	74358	103047	40276
Sale of Property	317146	218770	258396	74358	103047	40276
Total Expenditures	1297537	1431560	1635247	1504760	1511441	931553
Current Expenditures	1297537	1431560	1635247	1504760	1511441	931553
Personnel	853014	858387	949693	1020162	1045250	524492
Non Personnel	81591	102708	91756	48060	92994	53706
Procurement	83288	121597	197552	163817	135096	103885
Machinery & Equipment	7620	7562	3113	1205	1293	54723
Construction by Contract	0	0	0	0	0	0
Current Transfers	259883	325414	374308	264954	232447	190949
Debt Service	5390	4757	4840	3952	4361	2695
Contingencies	6751	11135	13985	2611	0	1103

THE REPUBLIC OF PANAMA
MUNICIPALITY OF SAN MIGUELITO
Table III.A.4: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(Per Capita)

	1980	1981	1982	1983	1984	1985
Total Revenues	9.11	9.65	9.99	7.96	8.87	6.90
Current Revenues	7.13	8.27	8.38	7.51	8.28	6.68
Direct Taxes	0.00	0.00	0.00	0.00	0.00	0.00
Indirect Taxes	5.77	6.00	6.79	6.57	6.87	5.22
Commercial & Services	2.62	2.78	3.17	3.13	3.10	1.95
Industrial Activities	0.13	0.13	0.12	0.16	0.14	0.09
Vehicle & Other Licenses	3.02	3.09	3.50	3.28	3.63	3.18
Other	0.00	0.00	0.00	0.00	0.00	0.00
Other, Non-Tax Revenue	1.36	2.27	1.59	0.94	1.41	1.45
Rental of Assets	0.00	0.00	0.00	0.00	0.02	0.01
Sale Of Assets and Other (placas)	0.17	0.24	0.24	0.27	0.30	0.29
Rates for admin. serv. & rights	0.12	0.11	0.23	0.30	0.29	0.18
Transfers	0.73	1.64	0.42	0.43	0.23	0.31
Various	0.35	0.28	0.62	0.40	0.37	0.66
Cash Balance	0.00	0.00	0.08	-0.46	0.20	0.01
Capital Revenues	1.98	1.38	1.61	0.45	0.60	0.22
Sale of Property	1.98	1.38	1.61	0.45	0.60	0.22
Total Expenditures	8.11	9.04	10.16	9.03	8.74	5.17
Current Expenditures	8.11	9.04	10.16	9.03	8.74	5.17
Personnel	5.33	5.42	5.90	6.12	6.04	2.91
Non Personnel	0.51	0.65	0.57	0.29	0.54	0.30
Procurement	0.52	0.77	1.23	0.98	0.78	0.58
Machinery & Equipment	0.05	0.05	0.02	0.01	0.01	0.30
Construction by Contract	0.00	0.00	0.00	0.00	0.00	0.00
Current Transfers	1.62	2.05	2.33	1.59	1.34	1.06
Debt Service	0.03	0.03	0.03	0.02	0.03	0.01
Contingencies	0.04	0.07	0.09	0.02	0.00	0.01

Overall, San Miguelito's financial condition has to be described as improving despite extremely difficult economic conditions. In addition, there are clear opportunities for even more significant improvement. For the long run, however, the municipality will not play a serious role in remedying its social and economic problems without major improvements in tax record keeping, identification of establishments paying no taxes, and identification of and collection from occupied municipal lands.

3. Intergovernmental Relations

San Miguelito's city administration is heavily involved in national politics. The Mayor is the elected head of the Inter-Municipal Cooperation Association (APCI) and has close political ties with the ruling political party and the military. These political ties also have existed in the past, thus accounting for the municipality's persistent ability to obtain resources at the end of the year to make up for revenue shortfalls.

Based on interviews with city personnel, however, the political ties of the elected officials to the central government do not seem to have had much influence on the principal service-providing ministries and institutions of the central government. As noted in the introduction, except for water, centrally-provided services are worse in San Miguelito than in any other municipality we visited or traveled through. In part that is attributable to the extremely rapid growth in population (almost 1 million people in six years) and the fact that the population growth has been primarily in income groups without the resources to buy or build adequate housing. The patterns of squatter settlements have made street construction and maintenance very difficult, and have impeded garbage collection as well.

Generally, municipal officials perceive central government ministries as slow to respond and not always effective. However, municipal personnel also stressed that central government does not particularly constrain the municipality from taking its own actions. Municipal personnel basically feel that current legislative, constitutional and other constraints permit them to chart their own course and provide them the leeway to accomplish many of their objectives.

4. Management Support Systems

a. Planning

At the moment, both strategic planning and spatial planning are weak functions in the municipality. Strategic planning seems to rest in the hands of the Mayor and her chief administrative aide. While the technical level of the municipal department heads is high, and each department head has a strategic as well as operational perspective, there are no mechanisms in place for developing an overall strategy for municipal development. However, with the assistance of MIPPE, San Miguelito is one of the few municipalities that has written objectives

and short- and medium-term plans. In our interviews, however, municipal officials indicated that these plans are currently under revision because they have not been able to meet the objectives set forth in the plans. Regarding the short- and medium-term goals, much of the plans were based on the expectations that the then newly elected President's decentralization policy would enable municipalities to have more say in deciding the priorities. However, with the 1985 central government changes, many of these plans fell into disuse.

As we discussed with one of the officials, one of the central weaknesses of the planning strategy sessions was that the costs of such plans were not considered. For example, the planning department was originally conceived to prepare budgets, standard operating procedures, administrative information systems and to undertake feasibility studies on future projects. Due to budget constraints and inadequate staffing, the Secretary General oversees these functions and manages the unit. Similarly, the Treasury was originally structured to have a department to update and control the Fiscal Cadastre as well as follow late payments and have a system for determining age debtor analysis on commercial activities and sale of lots. Neither function is being carried out and the receivables department controls this through a Kardex system. The results have not been very favorable, and an information system is being considered as a possible solution.

The formal organization structure for the municipality envisages a solution to the strategic planning function in creating an overall Office of Municipal Planning with three departments--Planning (spatial), Budgeting, and Institutional (administrative) Development. The Director of this office would be responsible for coordinating the separate planning responsibilities of each Department. The type of person municipal officials feel should fill the overall Director's position is an economist or specialist in economic development. Currently, the Director's function is filled informally by the Mayor's administrative aide who, while excellent for the position, has numerous unrelated functions to perform as well.

The Planning Department presently has a full time staff of two. These two staff presently are able mainly to begin to collate information on the physical characteristics of the municipality and interact with MIPPE and MIVI who have provided assistance and spatial maps in the past. This Department also performs the function of reviewing overall physical, economic and social project needs of the community. With other members of the municipal administration and with the appropriate council member, planning staff have been holding during 1986 community meetings to discuss specific needs by geographic area (for example, parks, soccer fields, etc.).

In principle, the follow-up to these meetings would be a priority list of the most important projects for which more specific plans and costs would be developed. Ultimately, the full municipal council would review the priorities and approve the list of projects. For 1986, this process has resulted in the decision to construct a municipal sports center. Presently, however, a lack of staff and a lack of overall central direction and coordination limit the effectiveness of this process.

Budget planning is the most advanced planning function at this time. There is a department head, two analysts and a secretary. The technical training of the department head seems excellent, and her plans for moving the municipality toward a unit cost approach for estimating budget requirements are well thought out. More detailed discussion is included in the following section on budgeting and accounting.

The third planning function identified by the municipality is institutional development. Currently there are no staff for this department, but its intended function is to identify municipal administrative weaknesses and to provide, or coordinate the provision of, training and staff development. In concept, the department is an excellent idea in that municipal staff see it as a continuous function required to keep the municipality on a progressive economic and social development track.

Overall, one has to judge the municipality's planning function in terms of the perspective municipal officials have on planning and on their intended program. Other than the initiation of the process of community needs identification and the beginning of a municipal database of physical characteristics, there are no accomplishments to date to evaluate. However, if the program is carried through, the municipality will have a process that links strategic (economic and social development) planning, spatial planning and financial planning. To the extent that longer term projects are identified through this process, then some capital planning also will be included. However, for the near term, the municipality is not generating the resources, nor is it organizing its expenditures in such a way as to initiate longer term capital projects.

b. Budgeting and Accounting

As just noted in the preceding section, the municipality presently has no capital planning and budgeting process mainly because officials do not perceive the municipality as a capital facilities provider. There is some recognition that this must change in the future if San Miguelito is to move out of its severe economic and social crisis, but little has been done to begin a capital facilities planning and budgeting process.

On the other hand, current or operations budgeting is rapidly being modernized to provide strong managerial control over recurring, operational costs. For 1986, one hundred percent of the $2.4 million budget can be considered current or operational. Beginning with some departments in 1986, budget instructions have required the submission of budgets in the form of specific objectives and specific work plans intended to accomplish those objectives. Each separable activity within a department that is to be carried out in support of departmental objectives must have a monthly cronogram, with monthly cost estimates, and each activity must be prioritized.

Budget review discussions with the Director of Budgeting focus attention on the work activities to be performed and stress is being placed on projecting accomplishments in measurable units and developing unit cost estimates to support budget requests. Although the process has only begun in 1986, some departments have responded very well. The Directorate of Engineering, for example, developed a data collection form which records the performance of each work activity carried out. Exhibit III.A.1 is a reproduction of this form. The form for engineering services includes a coding for the type of work performed, the date and hour work is begun and completed, the number of workers involved, a listing of equipment used and materials consumed, provision for general commentary and the location of the work and how the need was identified. In concept the form is excellent. Ultimately, the form will need to be simplified and adapted to easier coding. As it stands now, a very large volume of data will be accumulated that will require extensive coding before it can be collated and analyzed.

Purchase of materials and supplies for the municipality represents about ten percent of the total budget. There is a central Office of General Services which is responsible for all procurement. Competitive bidding (a minimum of three bidders) is required, and central government provides some cost guidance for standard items. The municipality has no storage space, and purchases probably are sometimes made in less than economic lots because of the lack of ability to hold even a small inventory.

Most cost elements within the budget are more or less controllable by the municipality; in other words, within the constraints imposed by economic conditions. The municipality sets its own salaries without reference to central government and the municipality determines its own tax rates. The cash flow situation usually is not a problem in that expenditures are basically evenly distributed across the year whereas almost forty-five percent of the revenues are collected in the first four months of the year.

Accounting support has been adequate for a line item and departmental type of budget process. However, the manual process will not be adequate to support a more activity-oriented budget process with an

Exhibit III.A.1

DISTRITO DE SAN MIGUELITO

DIRECCION DE INGENIERIA MUNICIPAL
FORMULARIO DE SERVICIOS

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No. _____ Solicitado por _____

Fecha inicio _____ Fecha terminación _____ Corregimiento _____

Hora inicio _____ Hora terminación _____ Lugar _____

Electricidad	Costos	Dibujo	Costos	Construcción	Costos
a. Instalaciones		a. Diseños		a. Instalaciones	
b. Alumbrado		b. Presupuestos		b. Reparaciones	
c. Rep. de Costos		c. Avalúos		c. Pintura	
d. Extensiones A/A		d. Desarrollo Planos		d. Barniz	
e. Cambio de Inst.		e. Cálculos		e. Otros	
f. Otros		f. Otros			
Plomería	**Costos**	**Agrimensura**	**Costos**	**Ornato**	**Costos**
a. Reparaciones		a. Mensura			
b. Instalaciones Nuevas		b. Rectificación de Puntos			
c. Instalación		c. Localizaciones			
d. Otros		d. Monumentación			
		e. Otros			

Observaciones: _____

Mano de Obra: _____ Firma del Solicitante: _____

Responsable Sección: _____ Firma del Ing. Municipal: _____

Para llenar por el departamento: _____

NOTA: Este formulario tiene como objeto cuantificar el servicio que esta dirección presta, por lo tanto, agradecemos su cooperación.

¡San Miguelito es Dignidad!

emphasis on unit costing of activities. Plans are to move to a computerized system in 1987, but no specific details have been formulated.

An accrual basis for recording both actual expenditures and commitments seems effective in preventing obligation of the municipality beyond the budget. The Municipal Treasurer controls the actual budget execution process through approval of checks against council approved budgets. There is discretion at the departmental level for small (undefined) amounts.

By law in Panamá, independent audit of municipal accounts is carried out by an auditor employed by the central Comptroller General assigned to the municipality. The municipality reimburses central government for the auditor's salary and provides office space and other logistic support. The auditor reviews monthly revenue and expenditure reports and carries out an annual audit. In addition, the auditor also serves as an informal technical advisor to the municipality in financial matters.

c. Personnel Administration

The municipality maintains a staff of 401 persons, although an article in El Matutino on September 19, 1986 (less than four days after our visit to the municipality) reported the dismissal of more than forty municipal employees, approximately ten percent of the total municipal payroll. The reason given for dismissal was alleged to be the unwillingness of the dismissed municipal employees to go along with reported corrupt financial practices.

The Directorate for Administration is responsible for the personnel functions and serves as a support for coordinating the flow of information between the various units. Additionally, the administrative unit controls supplies and stores and is responsible for preparing and issuing purchase orders.

This unit appears to be well run, although we observed that the layout and distribution of the unit is poor. Part of this stems from inadequate facilities, and it is overstaffed. The director acknowledged that he could work with seventy-five percent of the staff currently employed. Of the 401 municipal employees, this unit has 92 (twenty-three percent). Much of the system was inherited from the previous administration, and the present administration is currently studying ways to rationalize the workforce by stressing flexibility. Fewer than fifteen percent of the total workforce were added since the present administration came into office in 1984. To reduce fixed personnel costs and attack unemployment in the municipality (a high forty percent), the administrative director's philosophy is to encourage his personnel to "be available" for a variety of tasks. For example, he has promoted the Blue Brigade to keep streets clean.

The work environment is informal and the director shares his office with his personnel to be able to be in contact with them and attend to specific issues on a personal basis. The organizational climate observed in this unit was positive. From our observations, we noted that there is both upward and lateral communication.

Although the unit has developed job descriptions, it has not been successful in implementing a system for evaluation and review of personnel. One of the central issues is that no policy exists on salary scale and levels. For example, the administrative director noted that some secretaries earned more than a professional. This is an area that required urgent attention as there is no policy for promotion. The criteria used to give promotion is basically years of service. The director acknowledged that he has no trained personnel to prepare standard operating procedure manuals for recruitment, selection and promotion of personnel.

In addition, this unit maintains a well run manual system for payroll. This system also includes information on sick or vacation leave, social security benefits accrued and specific information on each employee. As it is well documented with procedures in place for monthly payments, the planning unit is contemplating automating the system. This would permit the director to concentrate on implementing the purchasing procedures for the municipality as a whole.

The administrative unit is responsible for stores and supplies but the inventory control is very deficient. There are no indicators to determine minimum inventory levels or economic purchase lots. The director complained of a lack of coordination with other units for determining needed supplies. This has resulted in uneconomical purchases for the municipality as a whole. Although in theory supplies and stores are centralized, in practice each unit also has its own supplies. Control is very difficult as the operating procedures are not in place.

Administrative information systems are currently under study. Most of the effort is being concentrated on trying to improve the information base on municipal taxes for the issuance of paz y salvo (a document that states that payments to the municipality are complete) and also to improve customer service which has been slow and inefficient due to unconsolidated accounts. For example, a taxpayer may be an owner of a commercial establishment, a property and a vehicle. This information is classified separately per activity, causing undue delays when a customer pays or requires the paz y salvo. A professional has been hired on a part-time basis to study the information needs per unit and between units. This work is being coordinated by the secretary general who heads the planning unit with the administrative director and the collection department under the treasury.

5. Public Works Services

The municipality performs few public works type services. As noted in the introduction, all infrastructure services and solid waste collection and disposal are provided by central government. Small construction and maintenance services, mainly related to municipal buildings, are carried out by the Directorate for Engineering. In addition, surveying of lots, maintenance and repair in public parks, and maintenance of public monuments or other public facilities are carried out by Engineering.

Most of the public works type activities presently are carried out in response to problems rather than as a result of annual planning. As noted in the discussion of budgeting, the Engineering Directorate has developed an information gathering form that will improve its ability to plan and estimate costs in the future.

Maintenance of heavier equipment and some construction work are contracted to the private sector after the municipality carried out an analysis of the costs of direct municipal provision.

6. Social Services

The Directorate for Social Development is composed of 3 existing departments. The first is responsible for the coordination and organization of 21 childcare centers. There also are departments of Education, Recreation, and Sports; and Social Work. A fourth department, the Coordination of Juntas Comunales and Juntas Locales, is not in operation. It does, however, have a single administrator (coordinator) who currently is assisting in the development of the department and the strengthening of communications between the municipality and the Juntas Comunales and Locales. As a whole, social services employs 64 persons, or sixteen percent of total municipal employees (using pre-dismissal figures). Of total municipal social service employees, twenty-seven percent are at the administrative level, including clerical personnel, working directly in the office of the Director.

In addition, all three departments provide only a portion of the total personnel involved in social service provision. The municipal role in childcare centers is to provide the facility, including maintenance, and to coordinate and supervise center services. Each center has a municipally-provided Center Coordinator. Teachers, cooks and others are central government employees. The Municipal Department of Social Work provides coordination of students from the Department of Sociology of the University of Panamá who come on a voluntary basis to San Miguelito twice weekly to work with the community to identify problem situations and to provide counseling and referral. Approximately 1,500 children from newborn to five years of age receive care at the centers which are distributed throughout the five corregimientos of San Miguelito. The number of children served at particular centers varies, with the smallest housing 26 children and the largest, 170. A

fee of $8 to $12 monthly is charged per child to help defray the costs of daily meals provided and operating expenses. This fee is collected at the individual centers. A problem in collections and late payments was reported, but no estimate of the proportion of service cost defrayed was available.

The Department of Culture, Recreation, and Sports employs 11 persons to act as coordinators of related community activities in addition to seven persons involved in scheduling and maintenance of the municipal gymnasium. The coordinators assist in the development of community activities in direct coordination with the Juntas Locales and the Committees on Culture and Sports, all of whom operate on a voluntary basis. The coordinators of the three social service departments meet weekly to schedule and design program activities with the Director of Social Development.

The municipality does not treat the childcare program as a cost center. Operation and maintenance costs are included in overall municipal line items (non-personal services and materials and supplies). Salary costs can be isolated for the Coordinators, but all other personnel expenses associated with administering the program are grouped within other functions. While the orientation is that the Directorate's work in culture, sports, education and childcare is a social service, financial personnel are interested in developing an activity-based budget to permit closer analysis of the cost structure.

7. Conclusions and Recommendations

At this time, San Miguelito is devoting the majority of its efforts to crisis management and medium-term solutions to the social problems brought on by high population density and high unemployment. The potential exists not only for additional local revenue generation but also for improved efficiency of operations. Management personnel new to the municipality's administrative system have brought with them innovative ideas on how to improve the service delivery performance.

To realize its potential, San Miguelito will have to continue with its more aggressive tax collection efforts and initiate a program to recover the value of municipal land. These revenues then will need to be invested in the type of economic infrastructure, suich as one or more public markets, that will generate employment oppportunitie . While not abandoning its orientation toward social services, additional revenues should be channeled toward such activities as the market and gaining control of land use and growth patterns. A more attractive community to private sector firms would be possible with municipal investments in street cleaning, street straightening (in cooperation with MOP) and better planned future growth zones.

B. Municipality of Chitré

1. Introduction

The municipality of Chitré, population approximately 32,500, is located in an agricultural region approximately midway between the canal area and the border with Costa Rica. The region generally is in good economic condition with agriculture and dairy industries predominant. Chitré itself shares in the economy of the region, serving as a market center for surrounding agricultural areas and as a transhipment center for commercial trade. It is located on the Pan American highway and near the coast. Tourist activity is high because of the proximity of excellent beaches, and an artisanal industry with some of the country's more famous ceramicists thrives. The unemployment rate for Chitré (1985) was six and one-half percent.

Chitré's population is concentrated in three urban zones. The cabecera or central community contains approximately sixty-five percent of the population with La Arena and Monagrillo approximately equal with the remaining. The total area for the municipality, 95 square kilometers, is relatively small for municipalities in Panamá, so that although small, Chitré is relatively urban for municipalities outside the canal area.

The three urban concentrations are the core of the municipality's three corregimientos. With only three corregimientos, Chitré has three members of the municipal council elected from their respective geographic areas and two members elected at-large (by national law, municipal councils must have a minimum of 5 members). Apparently because of the two at-large council members, local political decision-making seems less fragmented than in other municipalities visited in the sense that council members seem to be oriented somewhat more toward Chitré as a whole rather than just their own corregimientos.

The major service provision responsibilities of the municipality are solid waste collection and disposal, maintenance of public parks and facilities, and the commercial operation of a cemetery, a public market and a slaughterhouse. Total municipal employment is just over 100 or about 3 per thousand inhabitants compared with San Miguelito's 2 per thousand and David's 2.5 per thousand.

In general, municipal officials see the role of the municipality as being in transition from a small, minimal responsibility for providing a few services toward an expanded role including more involvement in infrastructure construction and maintenance and active promotion of the economic development of the community. In part this changing orientation was attributed directly by the Mayor and members of the council to the constitutional revisions providing for the election of mayors and to former President Ardito-Barletta's proposal to revert some of the property tax (national) to municipalities. Presently, however, the municipality has not taken many first steps toward expanding its role, although officials are able to diagnose the problems that have to be overcome.

2. Financial Management

Since 1983 Chitré has managed a budget of just over a half million, about a twenty-five percent increase over 1980. Thus, total revenues have remained stable, declining a few thousand in 1985, for a three year period. From 1980 to 1985, the municipality experienced a budget surplus every year until 1985 (see Table III.B.1). Collections and expenditures midway through 1986 suggests that a further deficit is possible.

Two of the municipality's three major revenue sources are indirect taxes--on commercial activities and vehicles. These account for thirty percent and thirty-six percent respectively. An additional fifteen percent of revenues come from charges for user services--solid waste collection and the public market. Almost ten percent of total municipal revenues come from the operation of the slaughterhouse. Chitré is seriously out of date in revising its tax code. The current base and rates were set in 1960. Since then, many new commercial establishments have been built, but are not included in the base, and of course the value of commercial activities has increased significantly since that time.

Rate collections for user charges are significantly below the cost of the service, and seriously below the expected collection rate. While there is no deliberate policy of subsidy pricing for solid waste collection and operation of the public market, a combination of failure to revise rates and failure to collect results in a heavily subsidized operation. For solid waste collection, approximately $14,000 were collected in revenues in 1985. Based on current rates, improved collection efficiency would have yielded at least $28,000 in user charges. For most activities, the accounting system does not facilitate identifying the costs of particular service activities, so the cost of solid waste collection could not be determined directly. However, analysis by the Treasurer and Technical Assessor suggests that solid waste collection costs are probably nearer $65,000 than $30,000.

The slaughterhouse is maintained as a separate commercial account, so that at least its current operating costs are identifiable separately. For 1985 revenues were approximately $60,000 with expenditures nearer $72,000. In addition, the Auditor estimated that total costs including depreciation of machinery, other equipment and the building would be on the order of $100,000 annually. The present problem with the failure to generate a profit seems to be outdated facilities and the inability to process a sufficient volume due to lack of cold storage space. An estimated four additional cold storage rooms are needed.

THE REPUBLIC OF PANAMA
MUNICIPALITY OF CHITRE
Table III.B.1: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION

	1980		1981		1982		1983		1984		1985	
	8s	%	8s	%	8s	%	8s	%	8s	%	8s	%
Total Revenues	392789		433388		479127		504871		504732		500007	
Current Revenues	391107	99.57%	430987	99.45%	468487	97.78%	494683	97.98%	498069	98.68%	494202	98.84%
Direct Taxes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Indirect Taxes	257225	65.49%	286082	66.01%	304292	63.51%	307391	60.89%	321604	63.72%	340075	68.01%
Commercial & Services	132838	33.82%	139122	32.10%	150413	31.39%	143857	28.49%	144361	28.60%	152436	30.49%
Industrial Activities	4650	1.18%	4080	0.94%	6166	1.29%	7152	1.42%	6559	1.30%	7176	1.44%
Vehicle & Other Licenses	119737	30.48%	142880	32.97%	147713	30.83%	156382	30.97%	170684	33.82%	180463	36.09%
Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other, Non-Tax Revenue	133882	34.08%	144905	33.44%	164195	34.27%	187292	37.10%	176465	34.96%	154127	30.82%
Rental of Assets	11044	2.81%	11194	2.58%	12144	2.53%	32407	6.42%	13993	2.77%	11579	2.32%
Sale Of Assets and Other (placas)	18437	4.69%	19649	4.53%	18168	3.79%	19508	3.86%	14265	2.83%	23332	4.67%
Rates for Admin. Serv. & Rights	66019	16.81%	68073	15.71%	73230	15.28%	76618	15.18%	94251	18.67%	77109	15.42%
Transfers	2604	0.66%	3110	0.72%	4241	0.89%	4614	0.91%	4493	0.89%	3251	0.65%
Various	29270	7.45%	31227	7.21%	37969	7.92%	27687	5.48%	29515	5.85%	33234	6.65%
Cash Balance	6508	1.66%	11652	2.69%	18443	3.85%	26458	5.24%	19948	3.95%	5622	1.12%
Capital Revenues	1682	0.43%	2401	0.55%	10640	2.22%	10188	2.02%	6663	1.32%	5805	1.16%
Sale of Property	1682	0.43%	2401	0.55%	10640	2.22%	10188	2.02%	6663	1.32%	5805	1.16%
Total Expenditures	387571		423018		461685		473524		502461		519619	
Current Expenditures	387571	100.00%	423018	100.00%	461685	100.00%	473524	100.00%	502461	100.00%	519619	100.00%
Personnel	226829	58.53%	230354	54.45%	250553	54.27%	254913	53.83%	268210	53.38%	282151	54.30%
Non Personnel	16979	4.38%	22871	5.41%	23448	5.08%	28643	6.05%	24787	4.93%	38762	7.46%
Procurement	35238	9.09%	48625	11.49%	55190	11.95%	57543	12.15%	60526	12.05%	65655	12.64%
Machinery & Equipment	3000	0.77%	400	0.09%	1244	0.27%	400	0.08%	50	0.01%	2140	0.41%
Construction by Contract	3387	0.87%	11005	2.60%	4100	0.89%	5859	1.24%	5431	1.08%	7000	1.35%
Current Transfers	81989	21.15%	86007	20.33%	92118	19.95%	87069	18.39%	92839	18.48%	91840	17.67%
Debt Service	12156	3.14%	19682	4.65%	32634	7.07%	35551	7.51%	44681	8.89%	28565	5.50%
Contingencies	7993	2.06%	4074	0.96%	2398	0.52%	3546	0.75%	5937	1.18%	3506	0.67%
BALANCE (REVENUES - EXPENDITURES)	5218		10370		17442		31347		2271		-19612	

The market's failure to pay for itself mainly is one of location. It is located out of the central commercial zone, and is not in an area of traffic circulation or easy access. Most small vendors choose to set up temporary stalls on the sidewalks or operate from pushcarts in the main commercial area because the shopping traffic would be insufficient in the market. Municipal officials disagree over whether it is a problem of vendors not locating in the market so that shoppers do not go there, or shoppers not going to the market so that vendors move downtown.

Major expenditure elements in the budget include fifty-four percent for personnel salaries, almost thirteen percent in procurement of materials and supplies, six percent in debt service, and eighteen percent in transfers (see Table III.B.1). The latter includes contributions to social security (almost ten percent, which should be added to personnel salaries for a total of sixty-four percent personnel costs), and payments to central government for various services such as municipal consumption of water and electricity and the salary and other support of the auditor. These expenditure proportions have not changed for the most part since 1980, although debt service is declining from a high of nine percent as debts are being retired (see Table III.B.2).

Although the municipality is collecting far less than it could and should be due to lack of enforcement and lack of revision in the tax code, its budget has kept pace with inflation. Table III.B.3 puts the budget in constant Balboas showing modest increases over the rate of inflation from 1980 through 1983 and slight declines in 1984 and 1985.

Measured in per capita terms, municipal revenues and expenditures in Chitré are higher than San Miguelito and lower than La Chorrera. Similar to the pattern in Table III.B.3 which shows the municipality more or less stable with the rate of inflation, Table III.B.4 shows that the budget also has kept pace with population growth. Total revenues per capita were $13.82 in 1980 and $15.36 in 1985.

The overall positive impression generated by keeping pace with inflation and population growth belies the fact that the municipality is heavily subsidizing some services which could be paying for themselves and is operating at a crude estimate of fifty percent of what it could be. Were there no desire nor need to expand services, the present level of operations would be appropriate. However, the municipality has a long list of serious problems that need to be dealt with.

Garbage trucks are hopelessly antiquated, the market needs relocation (not necessarily to a single site, but space is needed for street vendors), there are no transportation terminals for the large amount of shipping that moves through the municipality, and central government maintenance of streets and roads is very poor. The municipality thus has a number of avenues in which the public and officials agree need service expansion, and the resources are there. Lacking are adequate management systems to improve tax and rate collections and improve the efficiency and effectiveness of services provided.

THE REPUBLIC OF PANAMA
MUNICIPALITY OF CHITRE
Table III.B.2: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(Financial Balance Ratios)

	1980	1981	1982	1983	1984	1985
TOTAL REVENUES / TOTAL EXPENDITURES	1.01	1.02	1.04	1.07	1.00	0.96
CURRENT REVENUES / CURRENT EXPENDITURES	1.01	1.02	1.01	1.04	0.99	0.95
DEBT SERVICE / TOTAL REVENUES	0.03	0.05	0.07	0.07	0.09	0.06
DEBT SERVICE / CURRENT REVENUES	0.03	0.05	0.07	0.07	0.09	0.06
DEBT SERVICE / TOTAL EXPENDITURES	0.03	0.05	0.07	0.08	0.09	0.05
DEBT SERVICE / CURRENT EXPENDITURES	0.03	0.05	0.07	0.08	0.09	0.05
PERSONNEL / TOTAL EXPENDITURES	0.59	0.54	0.54	0.54	0.53	0.54
PROCUREMENT / TOTAL EXPENDITURES	0.09	0.11	0.12	0.12	0.12	0.13
TAX REVENUES / CURRENT REVENUES	0.66	0.66	0.65	0.62	0.65	0.69
NON-TAX REVENUES / CURRENT REVENUES	0.34	0.34	0.35	0.38	0.35	0.31
CAPITAL REVENUES / TOTAL REVENUES	0.00	0.01	0.02	0.02	0.01	0.01

THE REPUBLIC OF PANAMA
MUNICIPALITY OF CHITRE
Table III.B.3: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(In Constant 1980 Balboas)

	1980	1981	1982	1983	1984	1985
Total Revenues	392789	403903	428174	442094	435114	426627
Current Revenues	391107	401665	418666	433173	429370	421674
Direct Taxes	0	0	0	0	0	0
Indirect Taxes	257225	266619	271932	269169	277245	290166
Commercial & Services	132838	129657	134417	125969	124449	130065
Industrial Activities	4650	3802	5510	6263	5654	6123
Vehicle & Other Licenses	119737	133159	132004	136937	147141	153979
Other	0	0	0	0	0	0
Other, Non-Tax Revenue	133882	135047	146734	164004	152125	131508
Rental of Assets	11044	10432	10853	28377	12063	9880
Sale Of Assets and Other (placas)	18437	18312	16236	17082	12297	19908
Rates for Admin. Serv. & Rights	66019	63442	65442	67091	81251	65793
Transfers	2604	2898	3790	4040	3873	2774
Various	29270	29103	33931	24244	25444	28357
Cash Balance	6508	10859	16482	23168	17197	4797
Capital Revenues	1682	2238	9508	8921	5744	4953
Sale of Property	1682	2238	9508	8921	5744	4953
Total Expenditures	387571	394239	412587	414644	433156	443361
Current Expenditures	387571	394239	412587	414644	433156	443361
Personnel	226829	214682	223908	223216	231216	240743
Non Personnel	16979	21315	20954	25081	21368	33073
Procurement	35238	45317	49321	50388	52178	56020
Machinery & Equipment	3000	373	1112	350	43	1826
Construction by Contract	3387	10256	3664	5130	4682	5973
Current Transfers	81989	80156	82322	76243	80034	78362
Debt Service	12156	18343	29164	31130	38518	24373
Contingencies	7993	3797	2143	3105	5118	2991

THE REPUBLIC OF PANAMA
MUNICIPALITY OF CHITRE
Table III.B.4: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(Per Capita)

	1980	1981	1982	1983	1984	1985
Total Revenues	13.82	14.82	15.93	16.33	15.91	15.36
Current Revenues	13.76	14.73	15.57	16.00	15.70	15.19
Direct Taxes	0.00	0.00	0.00	0.00	0.00	0.00
Indirect Taxes	9.05	9.78	10.12	9.95	10.14	10.45
Commercial & Services	4.67	4.76	5.00	4.65	4.55	4.68
Industrial Activities	0.16	0.14	0.20	0.23	0.21	0.22
Vehicle & Other Licenses	4.21	4.88	4.91	5.06	5.38	5.55
Other	0.00	0.00	0.00	0.00	0.00	0.00
Other, Non-Tax Revenue	4.71	4.95	5.46	6.06	5.56	4.74
Rental of Assets	0.39	0.38	0.40	1.05	0.44	0.36
Sale Of Assets and Other (placas)	0.65	0.67	0.60	0.63	0.45	0.72
Rates for Admin. Serv. & Rights	2.32	2.33	2.43	2.48	2.97	2.37
Transfers	0.09	0.11	0.14	0.15	0.14	0.10
Various	1.03	1.07	1.26	0.90	0.93	1.02
Cash Balance	0.23	0.40	0.61	0.86	0.63	0.17
Capital Revenues	0.06	0.08	0.35	0.33	0.21	0.18
Sale of Property	0.06	0.08	0.35	0.33	0.21	0.18
Total Expenditures	13.63	14.46	15.35	15.32	15.83	15.97
Current Expenditures	13.63	14.46	15.35	15.32	15.83	15.97
Personnel	7.98	7.87	8.33	8.25	8.45	8.67
Non Personnel	0.60	0.78	0.78	0.93	0.78	1.19
Procurement	1.24	1.66	1.83	1.86	1.91	2.02
Machinery & Equipment	0.11	0.01	0.04	0.01	0.00	0.07
Construction by Contract	0.12	0.38	0.14	0.19	0.17	0.22
Current Transfers	2.88	2.94	3.06	2.82	2.93	2.82
Debt Service	0.43	0.67	1.08	1.15	1.41	0.88
Contingencies	0.28	0.14	0.08	0.11	0.19	0.11

3. Management Support Systems

a. Planning

No municipal department has formal responsibility for either strategic or land use planning. The former is carried out by the Mayor and members of the Council, drawing on technical staff from the various departments as required. Given Chitré's size, this function seems appropriate to the elected officials acting in concert, but the lack of any technical support means that information to assist in strategic planning is almost nonexistent.

For both strategic and land use planning support, the municipality relies entirely on the local representative of MIPPE who spends most of his time in the municipality, although he also works with smaller districts nearby. This MIPPE support in recent years has consisted mainly in a general diagnostic of the area's economy; the geographic and spatial characteristics of the district; and basic data collection on employment, health, education and commercial activity.

The principal planning deficiency is the lack of a process for identifying with citizens the priorities among the list of service problems discussed in concluding the previous section and developing a program to address the priorities. Some of the problem areas are greater than the technical competence of existing departmental staff to solve, and those that require infrastructure type investment are not within recent municipal experience. From a planning point of view, while no separate department need be created, technical staff support capable of developing service development programs after priorities are identified is lacking.

b. Budgeting and Accounting

As is apparent from the discussion of financial management, the municipal budgeting and accounting process has been deficient in not being able to associate the costs of providing a service with the source of revenues for that service. This is a recognized deficiency on the part of municipal officials. Special studies have been carried out of the market and solid waste collection to identify the overall magnitude of the problem of subsidy or undercollection. However, no systems yet are in place for making the type of information necessary to solve these problems available on a recurring basis.

The size of the municipal budget is small enough that municipal officials feel no need for an elaborate process of departmental budget preparation and submission to the Council. An executive budget committee consisting of the Auditor, Treasurer, Technical Assessor, the MIPPE staff member, and the Mayor begin budget preparation by estimating the overall budget total and then dividing it among the municipal departments. The Council then is involved creating an overall executive and legislative review committee. Council, by national law, has the final approval.

The nature of the budget preparation process essentially precludes the development of management responsibility for financial control at the departmental level. Effectively, the Mayor is the real department manager for what would appear on paper to be separate departments of engineering, solid waste collection, market and slaughterhouse. Again, this is not entirely inappropriate given the size of the municipality. However, to carry out these functions the Mayor needs additional technical support.

Accounting information is maintained on a cash basis. Major commitments are tracked separately in order to avoid overobligating the municipality, so that the cash system does not provide misleading information on the overall cash flow picture. Cash flow problems themselves are minimal as revenues are collected at a faster pace early in the year while expenditures are pretty much evenly dispersed throughout the year.

c. Personnel Administration

Most municipal officials feel the municipality has about one hundred twenty percent of the personnel necessary to carry out municipal functions. In addition, there is a large gap between the technical competence of the Mayor and several key staff (mainly financial staff) and the competence of service provision personnel. The problem is not so much that the worker level lacks skills or understanding of their jobs as a lack of middle management. What middle management support exists are workers who have long experience on the job. They too are not incompetent in the technical aspects of their job, but they have no training or background in how to organize their work activities, how to schedule the variety of tasks to be performed, how to monitor performance and how to supervise personnel.

There are no personnel systems in place for salary increase reviews, performance and promotion evaluations, and training of staff. This lack combined with the lack of middle management support accounts for the fact that there are more personnel than are required. There is no mechanism nor personnel to maximize the utilization of worker level employees.

4. Services

As already is evident from the discussion in preceding sections, there essentially is no management system in place for the various municipal services. No social services are formally organized, although temporary assistance to poor families is informally provided and financial assistance is sometimes made available through council action.

The largest municipal department is solid waste collection with thirty percent of total municipal personnel. There are 21 manual laborers, 6 drivers, one watchman, one secretary, two landfill operators and one chief. Two of the six trucks are eight years old and the other four are 12 years old. All of the trucks are standard dump truck types

which require workers to hand up garbage over the top. The department chief noted that one fewer worker per truck would be needed if side or rear loading were possible since two are required to lift each container to the top of present trucks. Route scheduling and special collections are not particular problems, mainly because of the small geographic area to be covered and the relatively clustered nature of housing and commercial establishments. Thus, the main problems for solid waste collection are failure to cover costs through user fees and inefficient use of personnel for lack of capital investment in equipment.

As noted above, the public market is located in an out of the way place that precludes its probable effective use. However, street vendors are impeding pedestrian and vehicular traffic flow, and revenue collections from these vendors are difficult. A more effective alternative to a central market might be several smaller markets (small buildings with space for several vendors) scattered throughout the commercial district. The municipal role might be to provide the organization of independent vendors and perhaps to lease the space from private property owners, reletting market stall space to vendors. Over time, the municipality could step out of the process altogether as cooperative associations form to deal with landlords and the municipality.

The slaughterhouse presently is operating at a loss, as noted. While municipal officials feel the source of the problem is lack of sufficient cold storage space, there is a legitimate question as to whether the upgrading would be commercially worthwhile. From a sheer commercial point of view, the small profits that might be generated are not likely worth the investment. However, available private sector facilities are at a sufficient distance from Chitré that some local farmers would be unable to continue raising small numbers of cattle if the municipality closed the slaughterhouse. The consequent unemployment and decline in one part of the local economy then would have other adverse effects on the municipality. In the near term, it seems warranted for the municipality to make the type of capital investment necessary to operate the slaughterhouse on a breakeven basis. In the long term, if there is sufficient growth or improvements in transportation, the municipality might then be able to relinquish its role to the private sector.

5. Conclusions and Recommendations

Overall, Chitré's economic base is sufficient to sustain a positive, well-managed municipal administration that provides the public sector prerequisites for private economic development and is responsive to citizen input on quality and level of services. The current administrative system has not been moved significantly from a minimalist, inactive administration as the district has grown. As a consequence, problems of equity in treatment of taxpayers, subsidization of services that could be self-supporting, and operation of unprofitable enterprises now is the norm.

Chitré's most serious management problem is the lack of trained middle-management personnel. The Mayor and his chief management auditor are the only true managerial level personnel for the service operations of the municipality. Thus, they are not sufficient to manage the operations of the key municipal departments (solid waste collection, market and slaughterhouse).

Changes in the accounting and budgeting systems to provide information on operational costs and revenues for the business-like operations of the municipality also are necessary in order to move toward at least a break-even basis for the major services. For the more general revenue producing taxes, an updating of the fiscal cadastre and a program to collect taxes aggressively is necessary.

C. Municipality of David

1. Introduction

David is the largest municipality outside the metropolitan canal corridor with a population just over 84,000. It is located in the rich agricultural region just below the border with Costa Rica. For that region as a whole, coffee is one of the major products. In addition, considerable transportation activity connected with agricultural exports stimulates the economy. David itself is a major transportation center, and one of the municipality's most successful projects is a bus terminal leased to the private sector for operation.

Although the population is only two and one half times that of Chitré, David's total area of 931 square kilometers is almost ten times that of Chitré. Thus, a considerable proportion of the municipality is rural, agricultural area. The average population density for David is 86 per square kilometer, but for the district's ten corregimientos this varies from less than 8 to 750 per square kilometer.

With a much larger geographic area and a much lower population density than the other three municipalities visited, David's political structure seems correspondingly less integrated. Among the Council, representatives see their role primarily as responding to the particular needs of their own corregimiento rather than as representing the municipality as a whole. In many respects, the municipal executive structure gives all the appearance of focusing on the main urban center (the cabecera) with its population of near 51,000, while the council or legislative body focuses on the rural areas (corregimiento boundaries are not population based so the cabecera with almost sixty-five percent of the population has one representative on the ten member council). In this respect, many municipal services really are services to the main urban center. Garbage collection, for example, is extended only to the most immediately surrounding corregimientos.

Officials' perspectives on the functions of the municipality are colored by David's distance from the canal area and the general abundance of resources. Considerable economic interaction takes place between the region around David and Costa Rica with a consequent semi-independence from the canal area where most of the country's economic activity is concentrated. There is very little tendency to look to the central government for additional assistance. In addition, apparently because of the greater wealth of the region, central government services such as road maintenance, electricity, water and agriculture-related infrastructure are much better than in the other municipalities visited. In general, municipal officials express a stronger orientation toward works-type services than social services, in contrast with San Miguelito, and they actively are seeking credit assistance to engage in large scale construction activities (e.g., a public market at between $500,000 and $750,000).

2. Financial Management

Budget information on completed budget years was available only until 1984, so Tables III.C.1 through 4 are one year shy of those presented for the other municipalities. For 1986, David's budget is just over $1.5 million, comparable to La Chorrera's $1.4 million. Per capita revenues (Table III.C.4) therefore, are quite comparable to La Chorrera and Chitré, reflecting the generally better local economies than San Miguelito.

The major revenue sources for David are two categories of indirect taxes--commercial (thirty-eight percent) and vehicles (twenty-four percent); sale of license plates and other licenses (fifteen percent) and user charges (seven percent) (Table III.C.1). A lower proportion of the municipal budget, compared with other municipalities, is devoted to personnel salaries (forty-two percent) and a higher proportion to procurement of materials and supplies (twenty-three percent). Debt service of two percent has been stable since 1980 as the municipality does make regular use of credit for capital type construction or purchases.

David typically has experienced a budget deficit of from three percent to ten percent (Table III.C.2). Some of the borrowing actually has had to be used to provide for current operations. Measured against the rate of inflation, David's budget has increased in constant terms every year from 1980 to 1984 (see Table III.C.3). The same pattern in per capita terms is reflected in increases from $14 per capita in 1980 to $17 in 1983 and down to $16 in 1984. The budget for 1986 shows maintaining at about $16 per capita.

Like most other municipalities in Panamá, David's commercial type operations are not well-managed either from the point of view of cost containment or collection of user charges. Municipal accounts make it impossible to associate costs of operation with revenues for garbage collection or markets, but the municipality has examined at least the latter for its commercial viability. Crude estimates are that solid waste collection has an accumulated deficit of $400,000 in uncollected user fees. In addition, no more than eighty percent of those receiving service are actually registered as users. As of 1985, the estimated cost of collection and disposal was $400,000 with just under $200,000 collected in user charges. Rates, however, are set so that collections even from the eighty percent registered would meet current costs, but not capital costs of equipment.

The market operation currently seems to be collecting user charges equivalent to current operating costs. These collections make no provision for depreciation of the building or other capital costs. However, the municipality is in the midst of an economic feasibility study of constructing a new market on municipal land located in what is projected to be the population center within the next decade. The economic design constraints for the study include both current and capital costs, the latter being repayment of a loan that is estimated at between $500,000 and $750,000.

THE REPUBLIC OF PANAMA
MUNICIPALITY OF DAVID
Table III.C.1: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION

	1980		1981		1982		1983		1984	
	Bs	%	Bs	%	Bs	%	Bs	%	Bs	%
Total Revenues	1054366	62.28%	1181148	58.81%	1303178	57.87%	1423385	63.50%	1350398	63.10%
Current Revenues	1027171	97.42%	1159159	98.14%	1275486	97.88%	1391988	97.79%	1326135	98.20%
Direct Taxes	642	0.06%	454	0.04%	526	0.04%	416	0.03%	552	0.04%
Indirect Taxes	656611	62.28%	694672	58.81%	754209	57.87%	903797	63.50%	852040	63.10%
Commercial & Services	386309	36.64%	387354	32.79%	413181	31.71%	528058	37.10%	512056	37.92%
Industrial Activities	16103	1.53%	14483	1.23%	15545	1.19%	16657	1.17%	16067	1.19%
Vehicle & Other Licenses	254199	24.11%	292835	24.79%	325483	24.98%	359082	25.23%	323917	23.99%
Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other, Non-Tax Revenue	369918	35.08%	464033	39.29%	520751	39.96%	487775	34.27%	473543	35.07%
Rental of Assets	80782	7.66%	84632	7.17%	95009	7.29%	99108	6.96%	96227	7.13%
Sale Of Assets and Other (placas)	90446	8.58%	170094	14.40%	183039	14.05%	172833	12.14%	201905	14.95%
Rates for admin. serv. & rights	65463	6.21%	98997	8.38%	100461	7.71%	99638	7.00%	89828	6.65%
Transfers	5158	0.49%	3866	0.33%	5017	0.38%	4434	0.31%	2354	0.17%
Various	126069	11.96%	104444	8.84%	135225	10.38%	109762	7.71%	81229	6.02%
Cash Balance	2000	0.19%	2000	0.17%	2000	0.15%	2000	0.14%	2000	0.15%
Capital Revenues	27195	2.58%	21989	1.86%	27692	2.12%	31397	2.21%	24263	1.80%
Sale of Property	27195	2.58%	21989	1.86%	27692	2.12%	31397	2.21%	24263	1.80%
Total Expenditures	1159116	10.53%	1309100	12.92%	1366668	11.85%	1425284	8.32%	1394255	10.88%
Current Expenditures	1159116	100.00%	1309100	100.00%	1366668	100.00%	1425284	100.00%	1394255	100.00%
Personnel	569489	49.13%	592465	45.26%	622600	45.56%	627048	43.99%	585886	42.02%
Non Personnel	122071	10.53%	169071	12.92%	161899	11.85%	118650	8.32%	151670	10.88%
Procurement	233056	20.11%	315020	24.06%	347960	25.46%	300307	21.07%	313932	22.52%
Machinery & Equipment	8393	0.72%	3539	0.27%	8282	0.61%	7877	0.55%	7682	0.55%
Construction by Contract	0	0.00%	0	0.00%	0	0.00%	999	0.07%	5951	0.43%
Current Transfers	195255	16.85%	190361	14.54%	185565	13.58%	219499	15.40%	222906	15.99%
Debt Service	25761	2.22%	28474	2.18%	38040	2.78%	42571	2.99%	32605	2.34%
Contingencies	5091	0.44%	10170	0.78%	2322	0.17%	108333	7.50%	73623	5.28%
BALANCE (REVENUES - EXPENDITURES)	-104750		-127952		-63490		-1899		-43857	
POPULATION	76782		78548		80368		82228		84116	
RATE OF INFLATION	1.00		1.07		1.12		1.14		1.16	

THE REPUBLIC OF PANAMA
MUNICIPALITY OF DAVID
Table III.C.2: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(Financial Balance Ratios)

	1980	1981	1982	1983	1984
TOTAL REVENUES / TOTAL EXPENDITURES	0.91	0.90	0.95	1.00	0.97
CURRENT REVENUES / CURRENT EXPENDITURES	0.89	0.89	0.93	0.98	0.95
DEBT SERVICE / TOTAL REVENUES	0.02	0.02	0.03	0.03	0.02
DEBT SERVICE / CURRENT REVENUES	0.03	0.02	0.03	0.03	0.02
DEBT SERVICE / TOTAL EXPENDITURES	0.02	0.02	0.03	0.03	0.02
DEBT SERVICE / CURRENT EXPENDITURES	0.02	0.02	0.03	0.03	0.02
PERSONNEL / TOTAL EXPENDITURES	0.49	0.45	0.46	0.44	0.42
PROCUREMENT / TOTAL EXPENDITURES	0.20	0.24	0.25	0.21	0.23
TAX REVENUES / CURRENT REVENUES	0.64	0.60	0.59	0.65	0.64
NON-TAX REVENUES / CURRENT REVENUES	0.36	0.40	0.41	0.35	0.36
CAPITAL REVENUES / TOTAL REVENUES	0.03	0.02	0.02	0.02	0.02

THE REPUBLIC OF PANAMA
MUNICIPALITY OF DAVID
Table III.C.3: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(In Constant 1980 Balboas)

	1980	1981	1982	1983	1984
Total Revenues	1054366	1100790	1164592	1246397	1164136
Current Revenues	1027171	1080297	1139845	1218904	1143220
Direct Taxes	642	423	470	364	476
Indirect Taxes	656611	647411	674003	791416	734517
Commercial & Services	386309	361001	369241	462398	441428
Industrial Activities	16103	13498	13892	14586	13851
Vehicle & Other Licenses	254199	272912	290870	314433	279239
Other	0	0	0	0	0
Other, Non-Tax Revenue	369918	432463	465372	427123	408227
Rental of Assets	80782	78874	84905	86785	82954
Sale Of Assets and Other (placas)	90446	158522	163574	151342	174056
Rates for admin. serv. & rights	65463	92262	89777	87249	77438
Transfers	5158	3603	4483	3883	2029
Various	126069	97338	120845	96114	70025
Cash Balance	2000	1864	1787	1751	1724
Capital Revenues	27195	20493	24747	27493	20916
Sale of Property	27195	20493	24747	27493	20916
Total Expenditures	1159116	1220037	1221330	1248060	1201944
Current Expenditures	1159116	1220037	1221330	1248060	1201944
Personnel	569489	552158	556390	549079	505074
Non Personnel	122071	157568	144682	103897	130750
Procurement	233056	293588	310956	262966	270631
Machinery & Equipment	8393	3298	7401	6898	6622
Construction by Contract	0	0	0	875	5130
Current Transfers	195255	177410	165831	192206	192160
Debt Service	25761	26537	33995	37278	28108
Contingencies	5091	9478	2075	94863	63468

THE REPUBLIC OF PANAMA
MUNICIPALITY OF DAVID
Table III.C.4: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(Per Capita)

	1980	1981	1982	1983	1984
Total Revenues	13.73	15.04	16.22	17.31	16.05
Current Revenues	13.38	14.76	15.87	16.93	15.77
Direct Taxes	0.01	0.01	0.01	0.01	0.01
Indirect Taxes	8.55	8.84	9.38	10.99	10.13
Commercial & Services	5.03	4.93	5.14	6.42	6.09
Industrial Activities	0.21	0.18	0.19	0.20	0.19
Vehicle & Other Licenses	3.31	3.73	4.05	4.37	3.85
Other	0.00	0.00	0.00	0.00	0.00
Other, Non-Tax Revenue	4.82	5.91	6.48	5.93	5.63
Rental of Assets	1.05	1.08	1.18	1.21	1.14
Sale Of Assets and Other (placas)	1.18	2.17	2.28	2.10	2.40
Rates for admin. serv. & rights	0.85	1.26	1.25	1.21	1.07
Transfers	0.07	0.05	0.06	0.05	0.03
Various	1.64	1.33	1.68	1.33	0.97
Cash Balance	0.03	0.03	0.02	0.02	0.02
Capital Revenues	0.35	0.28	0.34	0.38	0.29
Sale of Property	0.35	0.28	0.34	0.38	0.29
Total Expenditures	15.10	16.67	17.01	17.33	16.58
Current Expenditures	15.10	16.67	17.01	17.33	16.58
Personnel	7.42	7.54	7.75	7.63	6.97
Non Personnel	1.59	2.15	2.01	1.44	1.80
Procurement	3.04	4.01	4.33	3.65	3.73
Machinery & Equipment	0.11	0.05	0.10	0.10	0.09
Construction by Contract	0.00	0.00	0.00	0.01	0.07
Current Transfers	2.54	2.42	2.31	2.67	2.65
Debt Service	0.34	0.36	0.47	0.52	0.39
Contingencies	0.07	0.13	0.03	1.32	0.88

Collection problems also affect indirect taxes. The auditor estimates an accumulated deficit of $98,000 (about six percent of the 1986 budget) in commercial taxes and perhaps a similar amount for vehicle taxes. The main source of these undercollections seems to be the lack of adequate records on tax obligations and a very poorly organized Office of the Treasury. Information about the municipality's finances seemed not to be readily at hand during interviews with Treasury staff, and responses generally were not forthcoming. Interviews with the Auditor (an employee of the central Comptroller General) readily produced required financial information that the Auditor noted should have been as available from the Treasurer.

Overall, David, like La Chorrera discussed next, has a relatively progressive attitude toward financial affairs and is beginning a program of public education and citizen awareness to increase tax and rate collections. Part of this campaign will be to make citizens aware of what services the municipality provides and to provide opportunity for citizen input into community decision making. In addition, municipal officials are conscious of the municipality's ability to increase the level of service provision by leveraging existing resources with credit for capital projects.

3. Management Support Systems

a. Planning

The unit responsible for urban planning and land use in David is very weak. Although it is included in the organizational structure with line functions, in practice it does not carry out this role. The director of the unit is relatively new--seven months with the municipality. He complained that decisions are made on an ad hoc basis, and he has great difficulty in convincing management of the need to work by the guidelines established in the Urban Development Plan developed by the municipality and MIPPE.

Its functions are very similar to its counterpart in La Chorrera. The unit receives, processes and approves construction plans, but its decision making process often is flawed by political considerations. It also is responsible for maintaining an updated Cadastre on available land, zoning of economic activities and sale of lots. While plans do exist and the demand for lots is increasing, apparently this unit is understaffed and has a backlog of applications.

The unit is divided into three subunits with a total of 11 personnel. The director has no technical staff available and hence has had to train his personnel himself to be able to proceed with his responsibilities. He complained that although he has asked to hire additional staff, he has received no authorization from the Treasurer whom he considered incompetent. For example, he raised the issue of a cost/profit center. If unit heads could be held accountable for costs, in like manner they should have the authority to participate in investment decisions if surplus earnings were generated. The payroll for

his department is $3,000, while the revenue of around $10,000 is generated only from the issuance of construction permits. However, he has no discretionary funds to introduce changes that would increase earnings in other areas.

This unit is unable to maintain updated records of municipal lands. The Cadastre is antiquated and the land prices have not been updated since the early 1960s. Similar to other municipalities, David has a revenue potential in untitled lands. The director's rough estimates revealed that sixty percent of the municipal lands are occupied lands. These amount to nearly 10,000 acres. Much of this land is in middle class residential areas and some is even used for commercial activities. However, little has been done to tap this potential source.

It is difficult to estimate the revenue potential as the Cadastre would have to be updated and the occupant identified. Nonetheless, we could expect annual earnings of between $300,000-400,000 after having analyzed similar situations in the other municipalities that we visited. This figure would be roughly equivalent to between twenty-one percent and twenty-nine percent of total revenues.

Another issue closely related to the revenue potential is land price. The director explained that the pricing structure is very low and does not reflect the market price. Prices vary from 25 cents per square meter to $1.25. From our interviews, this price is abnormally low. For example for the municipality of San Miguelito with high levels of poverty and unemployment, the price range is between two and ten dollars per square meter.

b. Budgeting and Accounting

Budget preparation is a top down process with the Treasurer and the Auditor estimating revenue availability and apportioning expenditures among departments according to last year's performance and knowledge of planned changes in municipal policy or service provision. Each department is polled to request what they feel are absolute necessities. No work plans are developed within departments; none are requested to support budget necessities. Each department is expected to present its list of necessities in terms of human resources, materials and supplies and equipment.

All personnel decisions are made by the Secretary General, the Mayor's chief administrative aide. Therefore, requested personnel increases are not directly reviewed during the budget preparation process. Procurement also is through the Secretary General's office. National law is followed in competitive bidding (three bids) for all purchases.

The municipality has no general inventory of equipment or other assets, nor are long term investments planned in light of a general priority setting process. The market under study right now is the only example of an analysis and long term planning strategy for capital investment.

While the financial offices of the municipality seem poorly organized, the municipality is not in overall bad financial condition. The municipality has a FODEM debt that is not due to be paid off until 1992, but the municipality will retire that debt in 1987 in order to clear the debt service to obtain credit for the new market. Although there could be no corroboration, the underlying hints of some officials interviewed suggested that the municipality should be considerably better off financially than it is, given the level of commercial, agricultural and industrial activity. These hints laid the problems either to ineffective or even corrupt administration in the Treasurer's office which has been headed by the same individual more than a decade.

c. Personnel Administration

Although a complete roster of all personnel by department and salary level is readily available, no other personnel system is in place beyond payroll records which are kept manually in the Treasurer's office. All personnel decisions--hiring, firing, promotions, salary increases--are in the hands of the Secretary General, a powerful position therefore, and one tied exclusively to the Mayor. Longevity has been the only criteria in the past for salary increases, but the Mayor and Secretary General are attempting to at least refuse salary increases for employees who are not performing well. No systematic employee appraisal process exists to assist in this control, however.

4. Services

David's main public services are administered by the Departments of Parks and Garbage Collection. No particular social services are provided. In addition to administrative personnel (two department directors, subdirector, and a secretary), these departments employ 57 and 16 laborers, or twenty-eight percent and eight percent of total municipal employees, respectively.

The Parks Department primarily maintains four municipal parks and the grounds of the Palacio Municipál. Department personnel also clear fallen tree limbs and other obstructions from the municipality's roadways. The equipment inventory of the department is limited but includes several machetes, a lawn mower, and several wheelbarrows. For large projects such as fallen trees, the department requests assistance from the local offices of IHRE who maintains more sophisticated equipment.

The Department of Garbage Collection is of greater strategic and financial importance to the municipality. Garbage collection in David is considered problematic by municipal officials. The main problems they perceive are a lack of adequate equipment and personnel and poor collection of service user fees. Estimates of the proportion of fees collected vary between thirty-five and fifty percent depending on the estimate of the number of housing units receiving service. While

8,000 households are registered, the number of households receiving service is estimated by the Director as closer to 10,000. The fee for collection is $2 to $2.50 for residential households and $5 for commercial establishments.

One of the factors cited as contributing to poor collection is the community perception of the poor quality of service delivery. The Department Director attributed poor collection to inadequate equipment and personnel. Specifically, he mentioned that the Department does not have the capacity to collect the volume of garbage produced in the municipality. The estimated daily volume of garbage collected is 250 cubic meters while the city produces more than two times this amount. Prior to adding an additional shift in mid-August, 1986, collections were closer to 100 cubic meters of waste per day.

The majority of residences in the municipality receive service once per week. For special services such as the market, the hospital, municipal parks, and the National Guard, garbage pickup is on a daily basis. A detailed record of service is maintained in the Department. All garbage trucks are recorded in a log when entering the land fill with a load. Specifically, the vehicle, the date, time, and area serviced is recorded. A log of vehicle maintenance is also kept at the department level. The availability of such data could be important in providing support for budget requests, and also to estimate service demand, but the department is not involved directly in budget preparation.

Another factor of concern to the municipality is that the current landfill is filled to capacity. A plan and design model for a new sanitary land fill has been completed with the assistance of MIPPE. A site also has been located near the current facility, but is not in current operation.

Additionally, the landfill poses a health threat to the community as no incinerator operates in the area, and contaminated hospital waste is dumped with all other municipal waste. This was cited as a particular problem because of the geographic characteristics of the area surrounding the landfill. Because of the location of the landfill on a sloped area facing a small mountain range, at night the winds reverse to blow from the mountains, across the land fill, and into the nearby community. The land fill also attracts large flocks of vultures in addition to dogs and other scavengers.

5. Conclusions and Recommendations

Perhaps due to its distance from the canal corridor and the economic base of the region, David officials give the impression of an independent municipality capable of solving its own problems. Although administrative systems are not efficiently organized nor is the revenue potential close to being achieved, officials in David are accustomed to thinking of large-scale investments and of borrowing to leverage

its funds. David is the only one of the four municipalities we visited that has participated in central government credit programs, and it currently is completing a feasibility study for a new public market to be financed by credit operations.

To realize a level of efficient operation that is consonant with the potential, David will have to improve primarily two aspects. The financial system--tax collections, financial accounts, and budget preparation--has to be overhauled in a major way with new personnel or significant retraining of existing personnel a part of the overhaul. Second, improved work programming techniques for handling personnel training and personnel assignments are necessary.

D. Municipality of La Chorrera

1. Introduction

La Chorrera is a relatively large municipality located in the canal area about 20 kilometers from Panamá City. Approximately twenty-five percent of community residents commute to work in Panamá City daily. The district is composed of 18 corregimientos with a total population estimated at 76,000. La Chorrera has a well-organized municipal structure of more than 250 employees. Municipally-provided public services include a slaughterhouse, a central marketplace, garbage collection, and a cemetery. The municipality also maintains a public swimming pool, a childcare center, and provides partial staffing for a public library which is administered by the Ministry of Education. A privately owned and operated transportation/transit center also is present.

The administrative structure of La Chorrera was designed and approved by the Municipal Council in 1984 in the form of Agreement Number 23. Municipal administration is the primary responsibility of the Directorate of Administration which provides supervision for the Departments of Personnel, Records, General Services, and Information and Public Relations. In addition, the municipality has several other Divisions including Engineering, a Legal and Administration Division, Treasury, Public Services, and Education and Social Services.

2. Financial Management

Indirect taxes and non-tax revenues provide eighty-four percent of the municipality's revenues. Table III.D.1 shows the percentage distribution for all revenue and expenditure items. Commercial and service taxes constitute the major component of indirect taxes. These have historically been around twenty percent of total revenues. The next largest group is sale of assets and vehicle taxes. Both of these line items have varied between thirteen percent and seventeen percent over the last five years. Capital income from the sale of municipal lands is expected to be the major source of revenue for the municipality in 1986, reaching a high of thirty-eight percent. This represents a marked improvement over the previous years of sixteen percent (see Table III.D.1). The primary reason for this is the updating of the Cadastre and an increasing demand for land in this satellite city. As has been pointed out earlier, an increasing proportion of the population commute daily by bus to the Metropolitan area of Panamá City. La Chorrera has not leveraged its resources in recent years, and borrowing is not contemplated as a source in this administration due to reduced credit lines.

The municipality currently is updating its Fiscal Cadastre and reviewing its tax base, which was last reviewed and updated in 1979. Although the law entitles each municipality to determine its own tax base and to review it every two years, most municipalities that we visited did not follow this mandate. The reason appears to be a political one.

THE REPUBLIC OF PANAMA
MUNICIPALITY OF LA CHORRERA
Table III.D.1: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION

	1980		1981		1982		1983		1984		1985	
	Bs	%	Bs	%	Bs	%	Bs	%	Bs	%	Bs	%
Total Revenues	1177563		1326009		1336010		1364056		1406212		1420110	
Current Revenues	809896	68.78%	940741	70.95%	1182572	88.52%	1207481	88.52%	1227420	87.29%	1188470	83.69%
Direct Taxes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Indirect Taxes	422857	35.91%	493571	37.22%	519937	38.92%	475005	34.82%	497530	35.38%	509940	35.91%
Commercial & Services	266951	22.67%	270102	20.37%	281367	21.06%	282979	20.75%	301984	21.47%	306490	21.58%
Industrial Activities	15464	1.31%	17205	1.30%	17558	1.31%	21519	1.58%	14479	1.03%	19790	1.39%
Vehicle & Other Licenses	140442	11.93%	158435	11.95%	159196	11.92%	170507	12.50%	181067	12.88%	183660	12.93%
Other	0	0.00%	47829	3.61%	61816	4.63%	0	0.00%	0	0.00%	0	0.00%
Other, Non-Tax Revenue	387039	32.87%	447170	33.72%	662635	49.60%	732476	53.70%	729890	51.90%	678530	47.78%
Rental of Assets	19457	1.65%	19208	1.45%	26047	1.95%	26526	1.94%	27028	1.92%	27050	1.90%
Sale Of Assets and Other (placas)	129444	10.99%	145603	10.98%	224979	16.84%	224707	16.47%	233448	16.60%	225200	15.86%
Rates for admin. serv. & rights	38921	3.31%	34205	2.58%	29423	2.20%	26669	1.96%	24907	1.77%	34000	2.39%
Transfers	882	0.07%	1159	0.09%	665	0.05%	35936	2.63%	1564	0.11%	1200	0.08%
Various	198335	16.84%	214851	16.20%	363848	27.23%	412659	30.25%	419753	29.85%	368080	25.92%
Cash Balance	0	0.00%	32144	2.42%	17673	1.32%	5979	0.44%	23190	1.65%	23000	1.62%
Capital Revenues	367667	31.22%	385268	29.05%	153438	11.48%	156575	11.48%	178792	12.71%	231640	16.31%
Sale of Property	367667	31.22%	385268	29.05%	153438	11.48%	156575	11.48%	178792	12.71%	231640	16.31%
Total Expenditures	1137312		1326009		1336010		1363385		1388820		1420110	
Current Expenditures	1137312	100.00%	1326009	100.00%	1336010	100.00%	1363385	100.00%	1388820	100.00%	1420110	100.00%
Personnel	698939	61.46%	776227	58.54%	795257	59.52%	798277	58.55%	772979	55.66%	772045	54.37%
Non Personnel	76384	6.72%	85385	6.44%	79411	5.94%	87947	6.45%	95500	6.88%	94521	6.66%
Procurement	112825	9.92%	158132	11.93%	154253	11.55%	163955	12.03%	179907	12.95%	187017	13.17%
Machinery & Equipment	6683	0.59%	15200	1.15%	10020	0.75%	9050	0.66%	9350	0.67%	10019	0.71%
Construction by Contract	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Current Transfers	160332	14.10%	264629	19.96%	268685	20.11%	271693	19.93%	271955	19.58%	288379	20.31%
Debt Service	21909	1.93%	22740	1.71%	24690	1.85%	24690	1.81%	39138	2.82%	39138	2.76%
Contingencies	60240	5.30%	3696	0.28%	3694	0.28%	7773	0.57%	19991	1.44%	28991	2.04%
BALANCE (REVENUES - EXPENDITURES)	40251		0		0		671		17392		0	
POPULATION	69431		71541		73666		75812		77985		80192	
RATE OF INFLATION	1.00		1.07		1.12		1.14		1.16		1.17	

Apart from its own source revenues, the municipality receives no transfers from the central government. All capital investments done in the municipality such as public works or infrastructure for new lots are undertaken directly by central government agencies that receive the corresponding appropriations.

Financial analysis performed of some key financial indicators reveal some interesting trends. Current revenues in relation to current expenditures have been steadily improving since 1980 from seventy-one percent to eighty-four percent in 1985 (see Table III.D.2). This could be due to improved collection efficiency and the growth of commercial activities in the district. Furthermore, when tax revenues are compared to non-tax revenues, one observes the increasing importance of the latter. An important aspect of non-tax revenues is that it includes the unprofitable market and garbage collection activities. It also is important to point out that the slaughterhouse operation is very profitable and subsidizes the unprofitable activities. However, as the municipality consolidates its financial information, no financial measures are available to compare the relative importance of each activity.

The expenditure line items are basically operating expenses. As the municipality undertakes no investment which is a central government prerogative, it has no capital expenditure line items. The bulk of its operating expenses are personnel costs. These were sixty-one percent of total expenditures in 1980 and are being maintained at fifty-five percent since 1984. However, it appears that municipal management is being faced with the creation of a union to defend its interest. While we have little information on this union, informal talks with a municipal employee revealed that this union was out to safeguard the interests of the "blue collar" workers.

Procurement costs form the next major line item and have increased from ten percent in 1980 to thirteen percent in 1985. From our talks with the treasurer, it appears that stores and supplies lacked proper controls and was passed on recently to the treasury department. We, however, consider that replacement parts for the depreciated assets and vehicles have contributed to the rising costs associated with maintenance. However, as financial information is not available on a cost center basis, it is difficult to ascertain the causes for the increase in procurement costs. This municipality also is paying off a debt acquired in 1979 for the purchase of garbage trucks. This amounts to three percent of total expenditures.

In per capita terms, the municipality's personnel costs have declined from $10.1 in 1982 to $9.6 in 1985. This line item is one of the major concerns of the treasurer (see Table III.D.4).

THE REPUBLIC OF PANAMA
MUNICIPALITY OF LA CHORRERA
Table III.D.2: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(Financial Balance Ratios)

	1980	1981	1982	1983	1984	1985
TOTAL REVENUES / TOTAL EXPENDITURES	1.04	1.00	1.00	1.00	1.01	1.00
CURRENT REVENUES / CURRENT EXPENDITURES	0.71	0.71	0.89	0.89	0.88	0.84
DEBT SERVICE / TOTAL REVENUES	0.02	0.02	0.02	0.02	0.03	0.03
DEBT SERVICE / CURRENT REVENUES	0.03	0.02	0.02	0.02	0.03	0.03
DEBT SERVICE / TOTAL EXPENDITURES	0.02	0.02	0.02	0.02	0.03	0.03
DEBT SERVICE / CURRENT EXPENDITURES	0.02	0.02	0.02	0.02	0.03	0.03
PERSONNEL / TOTAL EXPENDITURES	0.61	0.59	0.60	0.59	0.56	0.54
PROCUREMENT / TOTAL EXPENDITURES	0.10	0.12	0.12	0.12	0.13	0.13
TAX REVENUES / CURRENT REVENUES	0.52	0.52	0.44	0.39	0.41	0.43
NON-TAX REVENUES / CURRENT REVENUES	0.48	0.48	0.56	0.61	0.59	0.57
CAPITAL REVENUES / TOTAL REVENUES	0.31	0.29	0.11	0.11	0.13	0.16

THE REPUBLIC OF PANAMA
MUNICIPALITY OF LA CHORRERA
Table III.D.3: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(In Constant 1980 Balboas)

	1980	1981	1982	1983	1984	1985
Total Revenues	1177563	1235796	1193932	1194445	1212252	1211698
Current Revenues	809896	876739	1056811	1057339	1058121	1014053
Direct Taxes	0	0	0	0	0	0
Indirect Taxes	422857	459992	464644	415941	428905	435102
Commercial & Services	266951	251726	251445	247792	260331	261510
Industrial Activities	15464	16034	15691	18843	12482	16886
Vehicle & Other Licenses	140442	147656	142266	149306	156092	156706
Other	0	44575	55242	0	0	0
Other, Non-Tax Revenue	387039	416747	592167	641398	629216	578951
Rental of Assets	19457	17901	23277	23228	23300	23080
Sale Of Assets and Other (placas)	129444	135697	201054	196766	201248	192150
Rates for Admin. Serv. & Rights	38921	31878	26294	23353	21472	29010
Transfers	882	1080	594	31468	1348	1024
Various	198335	200234	325155	361348	361856	314061
Cash Balance	0	29957	15794	5236	19991	19625
Capital Revenues	367667	359057	137121	137106	154131	197645
Sale of Property	367667	359057	137121	137106	154131	197645
Total Expenditures	1137312	1235796	1193932	1193857	1197259	1211698
Current Expenditures	1137312	1235796	1193932	1193857	1197259	1211698
Personnel	698939	723418	710685	699017	666361	658741
Non Personnel	76384	79576	70966	77011	82328	80649
Procurement	112825	147374	137849	143568	155092	159571
Machinery & Equipment	6683	14166	8954	7925	8060	8549
Construction by Contract	0	0	0	0	0	0
Current Transfers	160332	246625	240112	237910	234444	246057
Debt Service	21909	21193	22064	21620	33740	33394
Contingencies	60240	3445	3301	6806	17234	24736

THE REPUBLIC OF PANAMA
MUNICIPALITY OF LA CHORRERA
Table III.D.4: MUNICIPAL REVENUE & EXPENDITURE COMPOSITION
(Per Capita)

	1980	1981	1982	1983	1984	1985
Total Revenues	16.96	18.53	18.14	17.99	18.03	17.71
Current Revenues	11.66	13.15	16.05	15.93	15.74	14.82
Direct Taxes	0.00	0.00	0.00	0.00	0.00	0.00
Indirect Taxes	6.09	6.90	7.06	6.27	6.38	6.36
Commercial & Services	3.84	3.78	3.82	3.73	3.87	3.82
Industrial Activities	0.22	0.24	0.24	0.28	0.19	0.25
Vehicle & Other Licenses	2.02	2.21	2.16	2.25	2.32	2.29
Other	0.00	0.67	0.84	0.00	0.00	0.00
Other, Non-Tax Revenue	5.57	6.25	9.00	9.66	9.36	8.46
Rental of Assets	0.28	0.27	0.35	0.35	0.35	0.34
Sale Of Assets and Other (placas)	1.86	2.04	3.05	2.96	2.99	2.81
Rates for Admin. Serv. & Rights	0.56	0.48	0.40	0.35	0.32	0.42
Transfers	0.01	0.02	0.01	0.47	0.02	0.01
Various	2.86	3.00	4.94	5.44	5.38	4.59
Cash Balance	0.00	0.45	0.24	0.08	0.30	0.29
Capital Revenues	5.30	5.39	2.08	2.07	2.29	2.89
Sale of Property	5.30	5.39	2.08	2.07	2.29	2.89
Total Expenditures	16.38	18.53	18.14	17.98	17.81	17.71
Current Expenditures	16.38	18.53	18.14	17.98	17.81	17.71
Personnel	10.07	10.85	10.80	10.53	9.91	9.63
Non Personnel	1.10	1.19	1.08	1.16	1.22	1.18
Procurement	1.62	2.21	2.09	2.16	2.31	2.33
Machinery & Equipment	0.10	0.21	0.14	0.12	0.12	0.12
Construction by Contract	0.00	0.00	0.00	0.00	0.00	0.00
Current Transfers	2.31	3.70	3.65	3.58	3.49	3.60
Debt Service	0.32	0.32	0.34	0.33	0.50	0.49
Contingencies	0.87	0.05	0.05	0.10	0.26	0.36

3. Management Support Systems

a. Planning

Planning is characterized by an emphasis on urban land use and spatial planning. The Division of Municipal Engineering holds primary responsibility for implementing the Urban Development Plan that was approved by the Municipal Council late last year. This unit is striking in comparison to similar units in other municipalities. It formally performs the functions contemplated in the organizational structure. It has line functions and participates in the planning process as well. This is not necessarily true in the other municipalities. For example, while the municipality of David has a similar unit, its functions are very limited as the decision making process is more centralized and the functional units implement policies formulated at a higher level.

The planning unit in La Chorrera has the responsibility for formulating and implementing urban land use plans. It is worth pointing out that this unit provides a good example of continuity and consolidation; another contrast with David. The current director of the unit and his principal collaborators have held office since 1979. During this period, the unit has been consolidated, and the staff have been trained in their principal functions. Of the 58 employees that work in different departments, the inspectors and staff of the land survey department have received special training as this was once a weak area in the unit.

The Engineering unit is responsible for various activities. It receives, processes and approves construction plans. It also maintains an inventory of lots for sale, available land, and zoning of different economic activities. Unlike most other municipalities, the sale of lots and titled ownership in La Chorrera is well run and will represent thirty-five percent of the municipal revenues in 1986. It also maintains a close relationship with central government ministries like MIVI. In fact, using the Land Transfer Program, a mechanism for transferring "national" lands to municipal governments, the municipality has received 346 acres in the corregimientos of Hurtado, Iturralde and Amador. It appears that few municipalities know of this mechanism as most of those visited claimed to have little available municipal land for future growth. However, it should be noted that part of these wastelands are occupied without title deeds and hence central government land transfers may present additional problems to municipalities.

In Panamá, when land has been occupied for several years, the "occupier" has a right of possession (el derecho posesorio) that gives the person a right to own the land. However, as these occupiers are generally either in a low income group or unemployed, it is difficult to sell them the title deeds. La Chorrera is an interesting phenomenon of market conditions affecting the sale of lands. Due to its proximity to the Capital of the republic and because it is a satellite

city, there is an increasing demand for land. Hence, many of its inhabitants are in the process of legalizing land ownership. The municipality has devised a strategy to provide certain incentives to untitled owners. These vary from direct discounts to special terms and conditions studied on a case by case basis. The age debtor analysis is at five years maximum while the receivables due amount to approximately $1.0 million.

In contrast to the rest of the municipalities visited, La Chorrera has updated records of municipal lands per corregimiento and a total of 12,840 acres in the following corregimientos--Balboa, Colon, El Coco, Guadalupe, Puerto Caimito and Santa Rita.

The process of sale of lots per market segment also is clearly defined and followed. The sale of land follows two different procedures depending on the use of land and its size. It is important to note that such standard operating procedures were not available in the other municipalities. In fact, we could classify the rest of the municipalities at an incipient stage of growth compared to a much more organized administrative and managerially well-run unit at La Chorrera.

b. Budgeting

La Chorrera's budgeting process is operational but without developed standard operating procedures manuals. Similarly, operating procedures for budgetary planning and control have not been designed and neither has the Chart of Accounts been streamlined to facilitate data capture and processing. The budgeting system is organized on an activity by activity basis. This is a refinement on departmental budgeting and allows analyses of efficiency in providing services like garbage collection, market facilities and the slaughterhouse; however, this type of analysis is not being carried out, undercutting the rationale for using an "activity" budgeting system.

Up to the present, the budgeting process has served to satisfy the needs of the Municipal Council and to obtain commitments for specific small capital investments like replacement parts and equipment rather than as a planning instrument. The Treasury acknowledged that implementing the budgetary process on a cost/profit center basis would permit the municipality to outline the degree of cost recovery which can be reasonably expected over the short and intermediate term for its most important operations. They also complained of the lack of opportunities to discuss such issues with officials of central government agencies. If operating costs rise, budgetary controls per activity are essential if costs are to be identified and contained. Only by assessing operational costs on an activity by activity basis within the framework of ongoing operations will the municipality be able to outline the cost containment measures and recovery that is possible. In this manner, the municipality would be able to rank and give priority attention to specific activities with the objective of achieving an important impact on its revenue base and cost burden.

The Treasurer, however, acknowledged that they required some assistance in trying to put such a system in place and had little access to central government agencies for such assistance.

Our discussions with the Treasury department also revealed that there is little planning of financial resources due to a lack of discretionary funds for capital investments. However, the Treasurer and budgeting officer acknowledged that generating information on a cost/profit center basis would move the municipality to take action on the market and garbage collection that are currently unprofitable and using up resources generated by the more profitable slaughterhouse operation.

There is a general sense of a lack of control over revenues and expenditures on the part of administrators of the municipal service activities. This stems in part from a lack of understanding of their role and in part because they lack the necessary skills. If improvements are to be achieved, not only will skills have to be upgraded but accountability stressed if municipal service enterprises are to be treated as cost/profit centers.

The major budgeting system improvements where priority action should be focused are:

- Budget Formulation: The process of formulating the estimates needs to be strengthened by incorporating departmental and activity categories so that some form of accountability can be stressed.

- Budget Administration: Once the budget has been decided, it must be administered. This involves advising each department head of her/his budget and setting controls to prevent overspending or spending not in accord with the approved budget. Monthly or quarterly allotments, and a defined modification process are standard approaches to this process. La Chorrera does not use either.

- Budget Reporting: The existing system is designed to provide monthly and quarterly reports of actual spending against the budget. Decision makers could take greater advantage of these reports.

- Budget Structure: The municipality is keen on revising its budget structure to include the capacity to analyze activities/programs as well as organizational units so as to integrate its system. Perhaps this step should follow the introduction of performance measures, so that the responsible officials could be inducted into the process gradually.

c. Accounting

In its design, La Chorrera's accounting system contains many usable features (although the unit is not taking full advantage of many of these). The system has some notable weaknesses, but it also has some underlying strengths. The most significant strength is an in-place expenditure and payroll system. Action is currently being contemplated to automate these systems so as to improve the availability of information on a timely basis and on a cost/profit center basis. Some important steps in this direction appear possible through efforts that are within the municipality's capabilities with the help of some technical assistance in information systems.

The payroll system includes time sheets, payroll records and other auxiliary documents that build a useful record of commitments. The basic payroll data could be computerized in a suitable fashion to generate checks in a controlled and timely manner and to record data for accounting reports. The basic record-keeping system in the Treasurer's office is sound enough to record commitments accurately. However, we were unable to verify if the internal audit function effectively assessed the validity of the payroll and time card data submitted to the Treasurer. The accounting system's main weakness is that it does not appear sufficiently well developed to record payments for other than personal emoluments.

The flexibility of the system is underutilized as such information is neither used nor required for the decision making process. A largely accurate "flash" report could be produced as the system is capable of providing substantially valid reports of income and expenditures at least on a trimestrial basis. At present no such reports are being generated.

The municipality relies on a cash basis of accounting. It does not have an updated record of its commitments, and the cash flow concept is not utilized. However, because most of its expenditures are for the payroll and related items, there is relatively little accural problem. Nonetheless, a commitment recording and accounts payable system would increase control over the municipal financial situation.

Performance measurement is little developed or utilized within the municipality. These shortcomings will take time, resources and management commitment to overcome. Fortunately, while this systems component is necessary, it is not as urgent in the priority list as improvements to the accounting and budgeting process.

d. Personnel Administration

The management of the Department of Personnel is actually provided by the Director of Administration. In practice, personnel management and payroll functions constitute the major role of the Administration Department. These functions are, however, well-developed and well-implemented. A formal personnel structure has been designed and is

maintained by the Director. Specifically, the personnel structure exists in the form of a listing of all municipal divisions and departments, and component staff names, titles, and current salaries.

A formal system for municipal employee review and periodic evaluations also exists, as well as a benefit program which includes paid vacation and up to 15 days of sick leave per year (with a doctor's note). Leave with pay is another benefit provided to municipal personnel to attend seminars and other training programs.

Additionally, a formal system for salary determination and raises is maintained by the Director of Administration. Salaries are set according to the responsibilities of individual positions and the seniority of staff, i.e., length of time in a particular post. Each department maintains a manual which defines the responsibilities of the department and its staff in addition to the definition of the specific roles of the various departments of the municipality presented in Agreement No. 23. The majority of municipal personnel have been employed for several years; less than twenty percent were reported as having joined the municipality since the election of the mayor in 1984.

A complete personnel file also is maintained by the Personnel Section for every municipal employee. Included in these files are records of work performance evaluations, incidence of sick leave and vacation accumulation, and a complete salary history. These files are maintained and updated on an ongoing basis, i.e., whenever new information becomes available, for example, from recent employee evaluations or when sick or vacation leave is taken.

The payroll system also is administered by the Director of Administration. The payroll system is completely manual but is sophisticated and well-managed. Information on work attendance (i.e., sick or vacation leave used) is recorded for each employee on a file card on which the issuance of bi-weekly paychecks is also noted. (All municipal employees are permanent, full-time personnel, and are paid bi-weekly). The payroll system appears to be well-documented, and sufficiently well-developed to benefit from the automation of recordkeeping and paycheck issuance.

4. Public Works Services

The Directorate of Public Services is composed of 4 departments: Market Administration, the Cemetery, Garbage Collection, and the Slaughterhouse. As a whole, public services comprise more than forty-three percent of total municipal employees with the two largest departments (garbage and slaughterhouse) comprising twenty percent and eighteen percent, respectively.

The slaughterhouse in La Chorrera is reported to be one of the largest in the country and represents forty percent of total municipal revenues. It operates three days a week from approximately 5 pm until the

work is completed (this varies from 10 to 16 hours per day). As all other municipal employees, the workers are paid for 40 hours per week. Capacity is estimated at 200 animals per day. A register of the volume of service provided is maintained in the department located at the facility. Some seasonal variation in the use of the facility does exist. During the months (approximately two) when animals are not slaughtered, employees are primarily engaged in maintenance and repair of the facility.

The collection of garbage is considered to be one of the more problematic municipal services. Problems identified include the lack of sufficient equipment and the subsequent overstaffing of the department, as well as poor collection of garbage service fees attributed to community perceptions of poor service quality. Specifically, only three of the four garbage trucks owned by the municipality are in operating condition. Garbage collection is scheduled with rotating shifts of personnel in order to maximize the use of the limited number of vehicles available resulting in a large workforce than would be necessary if more equipment was available. The majority of community residents have garbage collected one or two days per week while specific sites receive daily service. Those with daily service include the hospital, and the market and slaughterhouse on all days of operation.

Another problem identified is the lack of an incinerator in the municipality (either public or private). This is considered problematic for health reasons. Specifically, hospital waste and animal refuse from the slaughterhouse are dumped with all other collected garbage in the same municipal landfill. In addition to the fact that hospital waste should be considered contaminated material, these waste products draw large flocks of vultures.

The market is centrally located in the municipality. It is municipally-managed and staffed, and operates Monday through Saturday from 7 am to 3 pm. Although there is additional space (stalls) available in the central market building, many stalls are located in the surrounding alleyways. This poses both a congestion and financial problem for the municipality. Specifically, persons with informal stalls outside the central market building are registered with the municipality and hence pay a sales licensing fee, but they do not pay for the use of market space. Additionally, the central location of the market and the location of informal market stalls in the surrounding alleyways pose a problem of congestion.

The municipality is interested in building another market on land located across from the current marketplace. They perceive a new market as a means to relocate the current informal stall sites as well as informal markets on the periphery of the city in one location, and hence, increase revenues through the licensing of market stalls.

5. Social Services

Municipally-provided social services include partial staffing of a Ministry of Education library, the administration, scheduling, and maintenance of a public swimming pool, and the administration of a child care center. The cost of facility (swimming pool and childcare center) maintenance and utilities also are provided by the municipality. Social service personnel comprise a small proportion (seven percent) of total municipal staff.

For both the swimming pool and the childcare center, a small fee is charged for the use of the facility (approximately $.15 for the swimming pool, and ten percent of the mother's salary for the childcare center, respectively). In neither case is the fee collected sufficient to recover costs. In practice, these services are considered to provide a "social benefit" and hence are not provided on a full cost recovery basis.

Records of usage of municipally-provided services are maintained at the specific service site (i.e., at the department or operating level). Because the library is not administered by the municipality, information on service volume is not available for this particular service. The swimming pool is primarily used by school children (as part of physical education activities) and local swim clubs. It is open to the general public, however. The childcare center provides care for 100 children varying in age from two to five or six (kindergarten). A waiting list of interested mothers also is maintained at the facility. These data provide useful estimates of future demand for services and hence, potential or need for expansion.

In the case of the childcare center, the size of current "classes" are used to "age" children in order to estimate the potential demand by class size, e.g., the size of the pre-kindergarten class is considered in estimating the demand (class size) of the kindergarten class in the next year. The estimation of demand for childcare service is complicated, however, by the fact that there are other private and public childcare facilities in the community. Another important consideration is the estimate that nearly thirty percent of mothers do not pay for the services of the childcare center presumably for economic reasons. At issue here is the rationale of the municipality providing this service given that other services exist in the community, and the municipality is operating this service at a loss.

6. Conclusions and Recommendations

The new administration in La Chorrera has started on a vigorous program of improving the municipality's financial position through improved tax and rate collectiosn and recovery of value from the sale of municipal land. Key administrative officials take advantage of their proximity to university-based expertise in Panamá City. Consequently, they are exposed to and receptive to new ideas to improve their management systems.

The main areas requiring improvement are the management of solid waste collection and financial administration. User charges are not collected efficiently now, and other tax collections are deficient. A more business-type accounting structure is needed to improve the operations of the enterprise activities of the municipality (market and slaughterhouse). In addition, since La Chorrera is so close to the markets of the metropolitan corridor, the municipality may in fact find it more profitable to allow the private sector to operate these enterprises and generate revenue through the tax structure.

IV. RECOMMENDED ADMINISTRATIVE/MANAGEMENT INTERVENTIONS

Five types of potential interventions in municipal management and administration can be recommended:

- 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 Panamá and Panamánian local governments, and among municipalities within the country;

- 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;

- 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;

- improvement of 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; and

- 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. Municipal Leadership and Intermunicipal Cooperation

One of the major difficulties municipal governments will have in developing a more coordinated and effective mix of services and capital investments is the pressure that now focuses 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 Panamá, local elected officials do not have a clear orientation toward the possible roles municipal governments could play.

Officials' perception of the way to serve their constituencies often is to provide small, short-term community assistance to the neglect of longer-term, development programs. Most local officials recognize the need to increase the level of municipal resources. To the extent that those resources come painlessly to the municipality, as would central government transfers, both elected officials and citizens may undervalue long-term over short-term investments. However, without large central government transfers, as will be the case in Panamá for the foreseeable future, municipalities will have to generate their own resources. In this circumstance, the relationship between local government and citizens is critical. If municipalities initiate efforts to raise additional resources without providing channels for citizen input and without a corresponding increase in the quality and quantity of services, citizens are likely to become more cynical and even less willing to meet tax obligations.

The rationale that local governments can be more responsive to citizens, can mobilize community resources more effectively and can tailor public institutions to suit unique community needs and preferences is based on a premise of exchange between government and citizens. Citizens have both formal and informal channels to express their preferences. Officials respond to these preferences both by playing an organizational role and a service role. The organizational role is assisting in the growth of community participation in local problem-solving. The service role is to generate resources and to provide services that are both more effective and more efficient when performed on a collective basis. The two roles are inextricably linked. Without the former, local government may seem to act in an imperious and paternalistic mode. Without the latter, community participation is a sham exercise that at least may appear as a device only to appease citizens without real substance.

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 Panamá. 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.

B. 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:

- a thorough updating of commercial cadastres in order to define the tax base for the indirect taxes;
- a complete identification of residential and commercial properties being provided garbage collection or similar services; and
- 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 would serve three purposes:

- the inventory would establish a basis for collections for occupied land that has not been paid for;
- the inventory would provide information on unused municipal property available for economically or socially productive uses; and
- 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.

C. Personnel Systems

Although we did not find employee turnover 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; and criteria for performance evaluation, retention, salary increases and promotions. Although, given the relatively small numbers involved, a detailed and cumbersome municipal civil service system may not be needed, a more formal system of personnel management is 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 termination of employees for exceptionally poor performance.

D. Administrative and Operational Assistance

Improved information bases, strengthened political and administrative leadership, and improved personnel systems are important for improving municipal finances and services. However, other forms of technical assistance also will 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:

- making it easier for tax payers or service beneficiaries to pay; and
- 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 National Bank of Panamá), 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 addition, it is almost impossible to pay several different tax obligations at once because records for each are kept separately.

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 also will 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 be stated only 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 also will be 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 also is 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. Access to Credit

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