

A.I.D. EVALUATION SUMMARY - PART I

PD-6311-409 85675

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office <u>USAID/PANAMA/PPEP</u> (ES# _____)		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Stopped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY93 <u>04</u>		C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>	
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
525-0313	Economic Policy Development (Economic Policy Component)	4/91	9/94	5,000 (\$2,294)	4,600 (2,035)*

*Component only.

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director		Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required 1. Clarify lines of authority and responsibility for the Coordinating Unit. 2. Participation and Dissemination: a. Adhere fully to activity approval procedures outlined in Project Paper including: - involvement of interministerial taskforces where appropriate. - Assign resources/responsibilities for dissemination and dialogue activities. b. Develop standard procedures for dissemination of reports/debriefings. 3. Project Implementation: a. Try to step up project implementation. b. Reduce delays in the organization and delivery of work products.* *(Approvals from project manager required for extensions of due date.) 4. Work plans: a. Coordinating Unit develops workplan with periodic updates. b. Revise mix of short-term consultants envisioned for project based on 4.a. c. Develop new project workplan based on 4.a. and 4.b above and update in conjunction with periodic revisions. 5. Recruit replacement Macroeconomic Senior Advisor with experience in organizing large scale educational/communications/information efforts and possessing a strong background in Privatization in addition to strong macro and development economic skills. 6. Maximize opportunities for dissemination that are afforded by the economic training component of the project - subject to Mippe's approval of specific reports. 7. Review program on or about 15 January 1994 to determine effectiveness of the project component as modified. If review is positive, continue full funding of component, otherwise, reprogram available funds into other project components.		GOP GOP/DEVTECH GOP/DEVTECH AID/GOP/DEVTECH DEVTECH/GOP DEVTECH GOP DEVTECH/AID/GOP DEVTECH/GOP DEVTECH AID AID/GOP	: immediate immediate 10/93 immediate immediate 11/93 12/93 11/93 Done Done 1/93

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: _____ (Month) _____ (Day) _____ (Year)

G. Approvals of Evaluation Summary And Action Decisions.

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
	Michael C. Trott	Lic. Delia Gárdenas	Robert Mathia	Kevin Kelly
Signature	<i>Michael C. Trott</i>	<i>Lic. Delia Gárdenas</i>	<i>Robert P. Mathia</i>	<i>Kevin Kelly</i>
Date	12/21/93		12/17/93	12/13/93

A B S T R A C T

H. Evaluation Abstract (Do not exceed the space provided)

The Panama Economic Policy Development Project is designed to assist the Government of Panama in expanding and strengthening the process of economic policy making. The "economic policy" component of the project funds technical assistance (long and short term) to the Ministry of Planning and Economic Policy in support of their economic reform program, developed in coordination with the World Bank, IMF and Interamerican Development Bank. As part of this support, the project seeks to improve/strengthen the policy formulation process, a weakness identified in the project design stage, by requiring the use of interministerial task forces as a condition for the technical assistance as well as wide dissemination of results/studies to help build a consensus for reform. The project contractor is DEVTECH.

The principal purpose of this mid-term evaluation was to assess progress by the project in assisting the GOP in the implementation of its policy reform program. Areas evaluated included (1) the operation of the component and (2) the extent to which the component is meeting its goals. The evaluation team was also required to provide, as appropriate, recommendations on attainable corrective courses of action that could be completed in the short run. The evaluation was conducted between 15 April and 30 April, 1993 by two associates of the company AG International Consulting Corporation. The team conducted numerous interviews and researched the relevant documentation to arrive at its conclusions, findings and recommendations. Major findings and conclusions include:

- The policy component was well-designed and appropriate for addressing the constraints identified in the Project Paper.
- The component has made important contributions to the policy reform process, particularly early in the project. More recently, however, especially since August, 1992, when host government lines of authority became blurred over responsibility for the reform program, implementation difficulties and external events have reduced the component's effectiveness.
- Considerable demand for policy analysis continues to exist. The Minister of Planning and Economic Policy is interested in developing an updated policy agenda for the use of the technical assistance and in amplifying the dissemination and consensus-building aspect of the project.
- The evaluators concluded that the probability of achieving a significant number of the project's original goals, and the importance of the outcome, justifies continued efforts to reorganize the project to return it to its original implementation strategy. The Government of Panama and the USAID Mission are in general agreement with the conclusion and findings.

Lessons learned will be addressed as part of the final evaluation.

C O S T S

I. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
William Rodgers	America's Group		\$25,000	525-0313
Phillip Rourke	America's Group			

2. Mission/Office Professional Staff Person-Days (Estimate) _____ <u>6</u>	3. Borrower/Grantee Professional Staff Person-Days (Estimate) _____ <u>4</u>
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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items:

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| <ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) | <ul style="list-style-type: none"> • Principal recommendations • Lessons learned |
|--|--|

Mission or Office:

USAID/PANAMA/PPEP

Date This Summary Prepared:

Title And Date Of Full Evaluation Report:
Panama Economic Policy Development Project,
Mid-term Evaluation of the Economic Policy
Evaluation.

◦ *Purpose of Activity Evaluated*

The Panama Economic Policy Development Project is designed to assist the Government of Panama in expanding and strengthening the process of economic policy making. The "economic policy" component of the project funds technical assistance (long and short-term) to the Ministry of Planning and Economic Policy in support of their economic reform program, developed in coordination with the World Bank, IMF and Interamerican Development Bank. As part of this support, the project seeks to improve/strengthen the policy formulation process, a weakness identified in the project design stage, by requiring the use of interministerial task forces as a condition for the support as well as wide dissemination of results/studies to help build a consensus for reform.

◦ *Purpose of Evaluation and Methodology Used*

The purpose of the evaluation was to assess progress under the Economic Policy Component of the project in assisting the Government of Panama (GOP) to implement an economic policy reform program. Areas evaluated included i) the operation of the Component and ii) the extent to which the Component is meeting its objectives. The evaluation team was also required to make recommendations on attainable corrective actions that could be implemented in the short run.

A two-person evaluation team from AG International examined relevant project related documents in Washington, D.C. and interviewed selected personnel and key people in the World Bank and AID/W. Both team members traveled to Panama City where they reviewed pertinent documents, reports, studies, economic analyses, quarterly reports, DEVTECH contract and other material available in the Mission. In addition, interviews were conducted with key individuals both in USAID/Panama and in the counterpart Ministries and institutions, including the Project Officer, the DEVTECH Senior Macroeconomic Advisor/project manager, Coordinating Unit personnel, Ministers and other key individuals. Based on the analysis of the information, responses and other evidence gathered from such sources, the Evaluation Team developed certain findings and conclusions about the impact and effectiveness of the project component and provided their recommendations.

◦ *Findings and Conclusions*

Findings:

1. The Economic Policy Component was well-designed, and appropriate for addressing the constraints that were correctly identified in the Project Paper.
2. The Component has made important contributions to the policy reform process in Panama, particularly early in the implementation period. More recently, however, especially since August 1992 when the Second Vice President left the Ministry of Planning and Economic Policy, and lines-of-authority over the GOP's Economic Program and Coordinating Unit were divided between him and the new Minister of Planning and Economic Policy, a combination of implementation deficiencies and external events have reduced the Component's effectiveness.
3. Implementation problems have included: a) not adhering to the Project's main strategy of broadening participation in policy analysis and formulation, and to extend the scope of dialogue and dissemination efforts aimed at building consensus for policy changes; b) not developing formal procedures for prioritizing the efforts of the technical assistance activity, and for assisting in prioritizing the work of the Coordinating Unit, to ensure that analytic and other efforts remained focussed on achieving the goals of the Economic Program; c) not developing the

C

volume of Component activities more quickly, utilizing resources that were made available for this purpose, to make sure that the Project's impacts would begin to be felt at critical junctures early in the Project's life; and d) not ensuring that analytical products generated by the Project were made available in a timely manner, and disseminated widely.

4. External problems have included: a) more rapid development of resistance to the Government's Economic Program than could reasonably have been anticipated; b) more rapid development of deeper divisions and antagonisms within the governing coalition than anticipated; c) division of authority between two key Governmental figures, and physical removal of CU from MIPPE's offices, causing estrangement of CU and MIPPE staffs, and relative isolation of the former from other ministries; and d) a series of recent legislative actions that have the effect of thwarting momentum of the Economic Program, and that threaten the sustainability of agreements with donors.

5. The Economic Policy Component of the Project is presently in a holding pattern, with technical assistance focussed on completing studies already in progress rather than on new initiatives. However, the Minister of Planning and Economic Policy is interested in developing an updated policy agenda for the Component, and in amplifying its original dissemination and consensus-building focus.

6. Considerable demand for policy analysis and technical assistance related to policy reform continues to exist, both within MIPPE and other ministries and public agencies.

Conclusions:

The probability of achieving a significant number of the Project's original goals, and the importance of the outcome, justifies continued efforts to reorganize the Project, returning to its original implementation strategy.

If, within the next six months, this assessment proves to be wrong, USAID/Panama can and should consider moving resources to other Project components and/or deobligating some unspent balances.

° *Principal Recommendations*

1. Request GOP to clarify lines of authority and responsibility for the Coordinating Unit.
2. Require host-country and contractor management to adhere to activity approval procedures outlined in the Project Paper. Particularly, every short-term activity must involve an interministerial task force (with strong leadership from MIPPE); and every short-term activity must plan and assign resources to dissemination and dialogue activities.
3. Require contractor management to implement task force development and dissemination plans as approved for each activity.
4. Try to step up the pace of project implementation, and reduce delays in the organization and delivery of work products from short-term TA.
5. Assist MIPPE to develop quarterly work plans in which activities are prioritized in light of policy importance rather than ease of implementation; develop contractor work plans in conjunction with the Coordinating Unit's plan.
6. Reexamine the allocation of project short-term resources in conjunction with policy priorities developed in step 5; in particular, try to activate work on: developing a rationale and consensus for privatization; directly addressing fears of employment losses from liberalization/privatization; developing credible programs to alleviate temporary adverse employment effects of the Program; establishing economic criteria for public investment and developing systematic, transparent procedures for evaluating public investment options.
7. Recruit new resident senior advisor. To fit the requirements of the new situation, strong technical

competence in macro and development economics and privatization should be complemented by personal characteristics including objectivity, balance and persuasiveness. Prior experience at organizing large-scale educational/ communications/information efforts, and excellent personal communications skills in Spanish should be required.

8. Investigate absorptive capacity of other Project Components and be prepared to reassign resources if effective means of utilizing them for Economic Policy Development cannot be generated within a reasonable period. One option would be to broaden training activity to include long-term training in the U.S. to the Master's level, selecting a small number of applicants from most successful graduates of the Economic Training Component.

9. Maximize opportunities for dissemination that are afforded by the Economic Training Component of the Project. Classroom work groups, under that component which are made up of participants from the various ministries are now engaged in study exercises, built around special topics. Including topical policy analyses carried out under the Economic Policy Component among the special topics would expose the participants to actual issues, faced by Panama, and would reinforce interministerial communication links at the working level.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier, attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

- 1) Panama Economic Policy Development Project, Mid-Term Evaluation of the Economic Policy Component.

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

It is the opinion of the USAID Mission and the Government of Panama, represented by the Ministry of Planning and Economic Policy (MIPPE), that the findings and conclusions of the evaluation team are, by in large, valid and that the recommendations are useful and appropriate. It is our collective intent to implement all the stated recommendations in whole or in part. The quality of the evaluation is considered satisfactory to very good. The scope of work was fully met and all questions posed were responded too. There are, nevertheless, some statements which we consider speculative in nature or which were based on factors which have changed since the writing of the project paper. These are discussed below for the record.

- The evaluation team has overemphasized the importance of the participatory aspects of the project (interministerial participating task forces and dissemination of reports) vis a vis support to the government for the formulation/implementation of policy reforms.
- Given the team's scope of work and limited access to information, both (USAID and MIPPE) consider to be speculative the team's assertion that the failure to adequately disseminate reports and to implement the participatory requirements has in part led to the less than satisfactory implementation of the reform program. The Ministry points out that in fact the "Consejo Económico Nacional", "Consejo de Gabinete", the Legislative Assembly and interest groups participated in the process to varying degrees dependent on the subject. This does not, however, detract from their findings and recommendations regarding the project's weaknesses in that aspect.
- The Ministry disagrees with the evaluators assessment that the separation of the 2nd Vice President from the Ministry resulted in institutional problems that adversely affected project implementation. The Ministry points out that Decree 17 of August 17, 1992 confers certain follow-on responsibilities for the Vice President in regards to the Economic Program but that these responsibilities were not incompatible with the functions of the Minister. The above clarification together with actions taken subsequent to the evaluation serves to resolve action number 1 regarding clarifying the lines of authority for the Coordinating Unit.
- While it is true that little TA has been provided to date for the privatization effort under the project, extensive assistance was provided under the previous project, making it less urgent to provide in this initial phase the level of assistance originally planned. However, further assistance is now planned in the government's efforts to gain support for privatization.
- The team cited the absence of technical support in the Budget Policy/Administrative area. Some support in investment planning is now underway. However, the IDB has been asked by the GOP to help strengthen its system of public investment once an evaluation is carried out and recommendations provided, on the basis of which IDB will develop an operations plan. Consequently, the level of support originally envisioned has been reduced for this sector.

1.	Clarificar las líneas de autoridad y responsabilidad para la Unidad Coordinadora	GDP	Realizado
2.	Participación y Divulgación:		
a.	Señirse completamente a los procedimientos de aprobación de cada actividad, señalados en el Documento del Proyecto, inclusive:		
-	involucrar a los equipos de trabajo interministeriales cuando sea apropiado	GDP/DEVTECH	De Inmediato
-	asignar recursos/responsabilidades para las actividades de divulgación y diálogo	GDP/DEVTECH	De Inmediato
b.	Desarrollar procedimientos estándar para la divulgación de Informes/"Debriefings"	USAID/GDP/ DEVTECH	10/93
	Ejecución del Proyecto:		
a.	Tratar de adelantar la ejecución del proyecto	DEVTECH/GDP	De Inmediato
b.	Aminorar las demoras en la organización y entrega de resultados*	DEVTECH	De Inmediato
	* (Aprobaciones del Gerente del Proyecto, requeridas para las extensiones de la fecha de vencimiento.)		
4.	Planes de Trabajo:		
a.	La Unidad Coordinadora desarrolla un Plan de Trabajo con revisiones periódicas	GDP	11/93
b.	Revisar la agrupación de consultores a corto plazo prevista para el proyecto en base al punto 4.a.	DEVTECH/USAID/ GDP	12/93
c.	Desarrollar un nuevo Plan de Trabajo para el Proyecto en base los puntos 4.a. y 4.b. antes señalados y actualizarlo en conjunto con las revisiones periódicas	DEVTECH/GDP	11/93
5.	Reclutar el reemplazo del Asesor "Senior" en Macroeconomía con experiencia en la organización de tareas en educación/comunicación/información en gran escala y poseer una gran experiencia en el área de Privatización, además de contar con una amplia experiencia en macroeconomía y desarrollo económico	DEVTECH	Realizado

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|----|---|-----------|-----------|
| 6. | Optimizar las oportunidades de divulgación que sean factibles mediante el Componente de Capacitación en Economía del Proyecto, sujeto a la aprobación por parte del MIPPE de los informes específicos | USAID | Realizado |
| 7. | Revisar el Programa alrededor del 15 de enero de 1994 para determinar la efectividad del Componente del Proyecto, tal y como fuera modificado. Si la revisión es positiva, continuar con el financiamiento total del Componente; de lo contrario, reprogramar los fondos disponibles entre los otros componentes del Proyecto | USAID/GDP | 1/93 |

XD-ABH-409-A

83076

PANAMA ECONOMIC POLICY DEVELOPMENT PROJECT
Mid-Term Evaluation of the
Economic Policy Component

Prepared for

USAID/Panama

By

Phillip W. Rourk

and

William L. Rodgers

AG International Consulting Corporation

Purchase Order No. 525-0313-0-00-3158-00

April 30, 1993

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EXECUTIVE SUMMARY

Project Description:

The Panama Economic Policy Development Project began in April 1991 and runs for three years until September 30, 1994, with total A.I.D. funding of \$5 million. It has three major components, which are interrelated and which are also closely related to the Government of Panama's (GOP) National Economic Program, which is itself the basic framework for Panama's ongoing programs with the International Monetary Fund (IMF), the World Bank, and the Interamerican Development Bank (IDB). The three components are Economic Policy Development, Economic Training for GOP Economists, and Canal Management and Development Plan. This mid-term evaluation is limited to the Economic Policy Development Component.

The fundamental strategic conception underlying the Project design is that the process of economic reform in Panama was being delayed, and proposed reforms were being diluted, because the ambitious plans announced by the GOP in its National Economic Program lacked consensus, not only within the government proposing them, but also among the diverse groups making up the national population. It should be kept in mind that the basic content and economic justification of the National Economic Program had already been developed at the time of this Project's design, and in fact already constituted the basis for understandings with all the international development agencies working in Panama, including A.I.D. The Project strategy, therefore, was aimed not only at contributing to the depth and quality of economic analysis available to policy-makers in Panama, but, more substantially, at increasing the number of Panamanians participating in the process of policy formulation, and increasing both the breadth and depth of economic debate taking place in the course of promoting policy changes. Specific procedures were stipulated in the Project design to ensure that all Project-funded activities would make adequate provision for involving GOP officials -- especially from technical levels -- and for widely disseminating results of studies within the Administration, the Legislature, and among the public at large.

The Economic Policy Component provides long- and short-term technical assistance to the Ministry of Planning and Economic Policy's (MIPPE) "Technical Unit for the Coordination of the Economic Program", or "Coordinating Unit" (CU) for short. This unit was set up to oversee and coordinate the policy reforms called for by the Economic Program, and otherwise to advise the Minister of Planning, a position held concurrently at the time the Project began by the Second Vice President of the Republic. This latter point is relevant because the Second Vice President's subsequent decision to give up his post as Minister but retain control over the implementation of the Economic Program has introduced some institutional and leadership issues within the GOP that have complicated the implementation of the Economic Policy Component, perhaps reducing the impacts that have been achieved to date.

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Principal Findings:

1. The Economic Policy Development Component was well-designed, and appropriate for addressing the constraints that were correctly identified in the Project Paper.

2. The Component has made important contributions to the policy reform process in Panama, particularly early in the implementation period. For example, actuarial projections to reflect new Social Security legislation were performed, supporting policy change in this critical area, and identifying priorities for continued improvements. More recently, however, especially since August 1992 when the 2nd Vice President left the Ministry of Planning, and lines-of-authority over the National Economic Program and Coordinating Unit were divided between him and the new Minister of Planning, a combination of implementation deficiencies and external events have reduced the Component's effectiveness.

3. Implementation problems have included:

a. failure to adhere to the Project's main strategy of broadening participation in policy analysis and formulation, and to extend the scope of dialogue and dissemination efforts aimed at building consensus for policy changes;

b. failure to develop formal procedures for prioritizing the efforts of the technical assistance activity, and for assisting in prioritizing the work of the Coordinating Unit, to ensure that analytic and other efforts remained focussed on achieving the goals of the Economic Program;

c. failure to develop the volume of Component activities more quickly, utilizing resources that were made available for this purpose, to make sure that the Project's impacts would begin to be felt at critical junctures early in the Project's life.

d. frequent failure to ensure that analytical products generated by the Project were made available in a timely manner, and disseminated widely.

4. External problems have included:

a. more rapid development of resistance to the Economic Program than could reasonably have been anticipated;

b. more rapid development of deeper divisions and antagonisms within the governing coalition than anticipated;

c. division of authority between two key Governmental figures, and physical removal of CU from MIPPE's offices, causing estrangement of CU and MIPPE staffs, and relative isolation of the former from other ministries;

d. a series of recent legislative actions that have the effect of thwarting momentum of the Economic Program, and that threaten the sustainability of agreements with donors.

5. The Economic Policy Development Component of the Project is presently in a holding pattern, with technical assistance focussed on completing studies already in progress rather than on new initiatives. However, the Minister of Planning is interested in developing an updated policy agenda for the Component, and in amplifying its original dissemination and consensus-building focus.

6. Considerable demand for policy analysis and technical assistance related to policy reform continues to exist, both within MIPPE and other ministries and public agencies.

Issue:

Given the extent of apparent legislative and popular opposition to the National Economic Program, and the imminence of the new Presidential campaign, is it reasonable to think that a reorganized Economic Policy Development Component can regain course and achieve its intended results, at least in part?

Conclusion:

Events are unfolding rapidly in Panama with regard to the Economic Program. Despite the apparent breadth of opposition existing, it is really not possible to predict their outcome at this time. Electoral and other short-term considerations affecting the legislative process may well be balanced within a reasonable time frame through dialogue within the Government and conversations between the Government and the multilateral agencies scheduled for May and June. In our judgment, however, the probability of achieving a significant number of the Project's original goals, and the importance of the outcome, justifies continued efforts to reorganize the Project, returning to its original implementation strategy.

If, within the next six months, we are proven wrong in this assessment, USAID/Panama can and should consider moving resources to other Project components and/or deobligating some unspent balances.

Recommendations:

1. Request GOP to clarify lines of authority and responsibility for the Coordinating Unit.
2. Require host-country and contractor management to adhere to activity approval procedures outlined in the Project Paper. Particularly,

- . every short-term activity must involve an interministerial task force (with strong leadership from MIPPE);
 - . every short-term activity must plan and assign resources to dissemination and dialogue activities.
3. Require contractor management to implement task force development and dissemination plans as approved for each activity.
 4. Try to step up the pace of project implementation, and reduce delays in the organization and delivery of work products from short-term TA.
 5. Assist MIPPE to develop quarterly work plans in which activities are prioritized in light of policy importance rather than ease of implementation; develop contractor work plans in conjunction with the Unit's plan.
 6. Reexamine the allocation of project short-term resources in conjunction with policy priorities developed in step 5; in particular, try to activate work on: developing a rationale and consensus for privatization; directly addressing fears of employment losses from liberalization/privatization; developing credible programs to alleviate temporary adverse employment effects of the Program; establishing economic criteria for public investment and developing systematic, transparent procedures for evaluating public investment options.
 7. Recruit new resident senior advisor. To fit the requirements of the new situation, strong technical competence in macro and development economics and privatization should be complemented by personal characteristics including objectivity, balance and persuasiveness. Prior experience at organizing large-scale educational/ communications/information efforts, and excellent personal communications skills in Spanish should be required.
 8. Investigate absorptive capacity of other Project Components and be prepared to reassign resources if effective means of utilizing them for Economic Policy Development cannot be generated within a reasonable period. One option would be to broaden training activity to include long-term training in the U.S. to the Master's level, selecting a small number of applicants from most successful graduates of the Economic Training Component.
 9. Maximize opportunities for dissemination that are afforded by the Economic Training Component of the Project. Class-room work groups, consisting of participants from the various ministries are now engaged in study exercises, built around special topics. Including topical policy analyses performed under the Economic Policy Component among these topics would expose training participants to these issues, and would tend to reinforce inter-ministerial communication links at the working level.

I. Introduction

As USAID/Panama began to work with the incoming Endara government in the first months of 1990, one of the priority areas for both the GOP and the Mission was economic policy reform. Early public statements by the President and members of his Cabinet indicated a willingness to reorient national economic policy toward a greater openness to international trade and increased competitiveness based on improving the efficiency of the domestic economy. Moreover, both parties, supported by the IMF, World Bank and IDB, recognized the need to take corrective actions to restore the country's international credit, and to alleviate unsustainable structural imbalances affecting the financial position of the central government, certain public enterprises and the Social Security system.

While this initial willingness on the part of the GOP was subsequently diluted due to political pressures brought to bear on it by sectors of the economy concerned over losing special protection, USAID/Panama pressed ahead with a strategy framed on the achievement of wide-ranging economic policy reforms. An important vehicle for implementing this strategy was the Economic Policy Development Project, an amplification and extension of earlier efforts to assist the GOP in the area of economic policy formulation which had been provided on during 1990 and 1991.

The Mission felt justified in doing so based on two main assumptions. One was the catalytic impact this project could have on the economic future of the country, and its efforts to establish and maintain lasting political stability. The other was based on GOP agreement to IMF and World Bank reforms proposed during the project design. To help support the Government in the development and negotiation of these reforms, USAID/Panama made funds available to the Ministry of Planning and Economic Policy (MIPPE) for a technical assistance contract for several months before the Economic Policy Development Project was formally obligated. Two long-term advisors specializing in macroeconomic policy reform were contracted, along with numerous short-term advisors to assist with analyses of specific reform proposals. This not only produced some timely and important analysis of reform options in the areas of trade, social security, customs, labor, and health care, but also provided insights to development and implementation obstacles which were soon to be faced by the IFIs.

The Economic Policy Development Project was approved on April 19, 1991. The Project Purpose is "to assist the GOP in expanding and strengthening the process of economic policy making", and the Project is made up of three components, each with activities that strengthen and expand the above policy development process. These components are: 1) Economic Policy; 2) Economic Training for GOP Economists; and, 3) Canal Management and Development Plan.

The first component, Economic Policy, was initiated in September 1991 as the continuation of earlier activity. This is

the only component which is being formally evaluated at this time. However, some mention of the Economic Training component is also included in this evaluation, even though it only started a year later in September 1992. This component works within the MIPPE Training Section and complements the TA efforts of the Economic Policy component by concentrating part of the training on priority areas for economic reform. The effect of the training program is therefore expected to help sustain economic reforms over the medium- and long-terms.

The Economic Policy component funds technical assistance to the Ministry of Planning and Economic Policy (MIPPE) for the development and implementation of economic policy reforms. The role of the institutional contractor, Development Technologies, Inc. (DEVTECH) is that of technical advisor to MIPPE and the other GOP implementing institutions, led by the so-called "Unidad Técnica de Coordinación del Programa Económico" or "Coordinating Unit" (CU). This unit is at the core of the Project and the technical assistance it receives. Despite reservations about creating new, "elite" institutional unit that were expressed by USAID and others during the design phase, MIPPE and the IFIs, especially the World Bank and UNDP, had reason to believe that the creation of this unit would facilitate the efficient use of technical assistance, and help to improve the policy making process in Panama. Locating a working unit of long- and short-term advisors within MIPPE, to act as part of the Minister's analytical team and as an active participant in the multi-ministerial task force seemed like a valid design concept. It has not been an unqualified success, however. Why not?

There are a number of factors, many of which are beyond the scope and control of this Project. Political infighting, change of Ministers and other key personnel in MIPPE, budgetary limitations, all have contributed in diverse ways to the fact that there has not been greater progress. Apart from these external happenings, however, other important questions focussed on the Project's design and implementation remain, and these need to be addressed if appropriate corrective actions are to be taken. These questions, developed mainly by the Mission and the Project's counterpart agencies, are the principal focus of this Mid-Term Evaluation. The Evaluation Team's answers to these questions, based on detailed consideration of the various elements affecting the Project's effectiveness and future prospects, are presented in Chapter III of this report. The background which is necessary to the consideration of these questions, to which we now turn, is given in Chapter II, below.

II. BACKGROUND

A. Project Strategy

The Economic Policy Development Project is directed first toward increasing participation in economic policymaking both within the Government and in Panamanian society at large, as well as on strengthening the quality and usefulness of economic analysis used in policymaking. The Project Strategy calls for assistance with a long-term focus. To this end, technical assistance funded through the Economic Policy Component is available to the Government of Panama, through the Ministry of Planning and Economic Policy (MIPPE), for support in formulating and implementing reform. Under the direction of a long-term Senior Macroeconomic Advisor, the majority of advisors are contracted for technical tasks requiring short term assignments, but only on condition that they are used to support the activities of working groups or task forces of Panamanian public sector officials and technical level employees organized to coordinate a particular reform. The rationale for the format based on inter-ministerial task forces was to help ensure that policy studies are not commissioned and used only by a few at the top, but rather developed, implemented and disseminated through broad discussion. It was also intended to avoid unnecessarily contracting external assistance for analyses that could be carried out by public sector technicians.

Complementary to the Economic Policy Component's strategy of participation and broad-ranging dissemination, is that of the Economic Training Component. It's in-house training program for mid-level economists concentrates part of the training on priority areas for economic reform, thus not only contributing to upgrading economic capacity within the GOP, but also exposing a large number of people who will be involved in policy implementation to the key issues involved.

B. Relationship to USAID/Panama Strategy.

The three broad objectives of USAID/P strategy are: 1) supporting democratic institutions and processes; 2) encouraging Panama to move toward a more open and competitive economy; and, 3) assisting the GOP to prepare itself to assume responsibility for operation of the Canal.

The Economic Policy Component supports the first two Mission objectives directly, while the Project's third component addresses Canal-related issues.

C. Relationship to Other Donor Programs

The Economic Policy Component was developed in close collaboration with the IMF, World Bank, and InterAmerican Development Bank. Careful coordination was and continues to be necessary so as to assure that resources are used to support

priority reforms with the greatest potential payoff to the Panamanian economy and population.

The basic policy agenda supported by Coordinating Unit and the Technical Assistance team is the Government's National Economic Program, developed substantially on the basis of a document entitled "National Strategy for Development and Economic Modernization", presented by the Government of Panama in June of 1990, and refined through discussions with the donors and multilateral agencies in the succeeding months.

Agreement on an overall program was conditioned on the Government's passage of three major new laws focussing on reform of the tax code and tax administration, on reform of the social security system, and on privatization of public enterprises.

The World Bank approved a \$120 million Economic Recovery Loan to be disbursed in three tranches on the basis of progress in implementing the Economic Program. Only the first tranche of \$60 million has been disbursed, and subsequent disbursements will be contingent on measures taken to increase public investment and increase private sector efficiency through trade and tax reforms, and actions agreed on by the Government to stabilize public sector finances through reducing the Government's wage bill and eliminating the social security system's cash deficit within a maximum of ten years.

The Interamerican Development Bank, meanwhile, is focussing its attention on reform of the public enterprise sector, including the large utilities IRHE (electricity), IDAAN (water and sewerage), INTEL (telecommunications), and APN (ports). To support reforms in these institutions, the IDB has implemented and is disbursing a \$120 million sector loan, which is also in three tranches, only one of which has been disbursed to date. Paralleling the sector loan, the IDB is also implementing an ambitious, \$12 million technical assistance program for reform and/or privatization of the major public enterprises.

USAID technical assistance provided through the Economic Policy Development Project is to be used to assist the Government in managing the overall process of policy reform through the MIPPE Coordinating Unit, and complements the efforts of other development agencies in Panama in a direct and continuing manner. UNDP also provides assistance in the form of operating funds for the MIPPE Coordinating Unit.

D. Project Description

1. Goal and Purpose

Goal: "Sustained economic growth with benefits for, and participation by, all Panamanians."

Purpose: "To assist Panama in expanding and strengthening the process of economic policy making."

2. Components and Activities

The project has three components with activities that strengthen and expand the process of economic policy making. These three components are: a) Economic Policy ; b) Economic Training for GOP Economist; and, c) Canal Management & Development Plan. It is the first of these -- the Economic Policy component -- that is the concern of this evaluation.

The Economic Policy component funds technical assistance to the Ministry of Planning and Economic Policy (MIPPE) for the development and implementation of economic policies. As described further in Chapter III, the technical assistance is conditioned on MIPPE's modifying the way it develops and promotes economic policy reform. The role of the institutional contractor, Development Technologies, Inc. (DEVTECH), is that of technical advisor to the implementing institutions. Short- and long-term economic technical assistance is provided under the component. The focus of technical assistance and advisory work includes, but is not limited to, the following priority issue areas.

a) Social Security Reform

The Social Security system (CSS) currently represents one of the principal drains on GOP resources. The main objective in the economic reform process is to put the pension system back on sound actuarial grounds without increasing employee or employer contributions to the system, as these are already at a high level. The healthcare component of the CSS is also slated for attention.

b) Trade Reform

The main objective in the trade area is to reduce the effective rate of protection granted to domestic manufacturing and agriculture, first, through converting all specific tariffs to ad-valorem tariffs, and then, by 1994, through lowering tariff rates to an average of around 20 percent, while eliminating non-tariff barriers that continue to exist.

c) Labor Reform

The unemployment rate, which currently hovers around the 15 percent level, is in large measure a product of an existing labor code that discourages domestic and foreign investment, and contributes to inappropriately high capital-intensity in the investment that does take place. The objective is to revise the present code so as to increase the flexibility of Panama's labor markets, contributing to employment creation and improving Panama's international competitiveness.

d) Privatization

The objective is for the GOP to improve the management or divest itself of the main public utilities, while selling some of the smaller enterprises it now owns, such as a cement plant, a citrus processing plant, banana plantations, an airline, and others.

e) Investment Planning and Budget Systems

Budget Policy is a high priority for the project. The Budget Office is located within MIPPE and yet its technical capabilities are very limited. The office lacks a multi-year budget and the skill levels of its employees need to be up-graded.

3. Economic Training

While the second component, Economic Training, does not officially fall under the purview of this evaluation, its activities have a bearing and long term impact on the first component. Both components have the same counterpart institution, MIPPE, and both components work with the public sector. A training contract was signed with Iowa State University and a long-term advisor/Chief of Party is located in Panama. Under this activity, fifty participants from the public sector are having their economic skills up-graded. These economists from the various planning and policy offices of the Ministries are now being trained in Microeconomics, Macroeconomics, Econometrics, Special Economic Topics on priority areas and the use of the computer in their economic analyses work.

4. Outputs

The project paper lists three outputs as follows:

- * Analyses of economic reform.
- * CSS Financial system
- * Computer produced statistical and census reports.

5. Management and Implementation

A Project Officer of USAID/Panama's Office of Projects, Program & Economic Planning is responsible for the management of the project. The long-term Macroeconomic Advisor under the technical assistance contract also serves as the contractor firm's representative and in-country manager.

The Implementing Agency is the Ministry of Planning and Economic Policy (MIPPE), through its Coordinating Unit.

E. The Evaluation Process

1. Purpose

The Economic Policy Component was initiated in September 1991. The Project Paper called for two evaluations to be undertaken; this first evaluation was to have been performed by an outside, objective team approximately one year into the project, with a final evaluation to be undertaken two months before the project is completed.

The first evaluation will assess progress under the component with assisting the GOP to implement an economic policy reform program. Areas to be covered in the assessment include (i) the operation of the Component and (ii) the extent to which the Component is meeting its objectives.

2. Statement of Work

The statement of work for this evaluation is as follows:

"In evaluating the Economic Policy Component, the Mission requires an outside, objective evaluation team to gather and analyze relevant component information and, if necessary, recommend attainable corrective courses of action for the Component that can be completed over the short run." Specific questions prepared by the Mission for the Evaluation Team are addressed in Chapter III. The complete text of the Statement-of-Work for this evaluation is attached as Annex 1.

3. Methodology

A two person team provided by AG International Development Corporation (AG International) undertook the evaluation. They examined relevant project-related documents in Washington, D.C. and interviewed selected personnel and key people in the World Bank and AID/Washington, specifically, Dr. Mary Ott, Chief Economist, Latin America Bureau and Mr. Moazzam Mekan of the World Bank.

Both team members traveled to Panama City and spent time in the USAID/Panama office reviewing pertinent documents, reports, studies, economic analyses, quarterly reports, DEVTECH contract and other material available in the Mission. Interviews were conducted with key individuals both in the USAID and in the counterpart Ministries and institutions, including the Project Officer, the DEVTECH Senior Macroeconomic Advisor/project manager, Coordinating Unit personnel, Ministers and other key individuals. A full list of individuals contacted is contained in Annex 2.

Based on an analysis of the information, responses and other evidence gathered from the above-named sources, the Evaluation Team was able to reach certain conclusions about the impact and effectiveness of the project component and provide the recommendations which are presented below.

III. TECHNICAL EVALUATION OF THE ECONOMIC POLICY DEVELOPMENT PROJECT

In this chapter, we review the specific issues indicated by USAID/Panama as being of special concern for evaluating the project's progress to date. The focus is on the technical and institutional aspects of project design and implementation, rather than administrative and financial aspects which are reviewed separately in the next chapter. Technical and institutional issues related to the project's implementation are discussed here from three perspectives:

- . relative to the original project design;
- . relative to events as they unfolded, in the Panamanian setting; and,
- . relative to conditions that are expected to prevail during the project's final phase.

A. Implementation To Date Compared to Project Design

1. Introduction

As has been described in detail in Chapter II., above, the project's Purpose is "to assist the GOP in expanding and strengthening the process of economic policy making". Its Economic Policy Component provides the services of a full-time resident Senior Macroeconomic Advisor (SMA) and a total of 77 person-months of short-term technical assistance to support MIPPE's "Unidad Coordinadora" or CU¹.

The Project's strategy statement indicated that "the constraints to economic policy making that the EPD Project will address are the limited number of Panamanians participating in the process of policy formulation and the limited depth of economic debate in promoting policy changes". The Project Paper continues by asserting that "the process of policy discussion and consensus-building at present unnecessarily risks failure (emphasis added) because (1) it does not include public sector officials at the levels of government where economic policy must be implemented, (2) it does not attempt to identify and garner support from beneficiaries, and (3) it does not nurture economic talent within the public sector..." "The Project strategy will be directed toward increasing participation in economic policymaking both within the Government and in Panamanian society at large, and toward strengthening the quality and usefulness of economic analysis used in policymaking."

¹ Formally, the CU is known as the "Unidad Técnica de Coordinación del Programa Económico" or UTCPE.

In addition to broad-ranging, day-to-day assistance in macroeconomic policy development to be provided by the Senior Macroeconomic Advisor, it was anticipated that the Economic Policy Component would focus its attention on the following major areas where policy reforms were considered most urgent, recognizing, of course, the possible need to reassign priorities among them in response to changing circumstances during project implementation:

- . Social security, with emphasis on improving the financial accounting and reporting systems available at the Caja de Seguro Social, assisting to put the pension system back on a sound actuarial basis without increasing contributions to the system, and helping to implement changes to rationalize and contain the growth in health care costs borne by the CSS. (18 person-months estimated)
- . Budget policy and administration, especially as regards improving MIPPE's budgeting systems (including the institution of cash and multi-year budgets), and in strengthening investment analysis and planning capabilities related to the GOP's public investment programs. (24 person-months estimated)
- . Privatization, focussing on assistance to Panamanian staff in preparing state-owned enterprises for auction and sale, possibly including 4 state-owned banks if these were to be slated for divestiture by the GOP. (30 person-months of short-term TA were estimated for this activity, subject to reprogramming "if no sales have occurred by the time of the first Project evaluation")
- . Labor, with a view to reforming the labor code to increase the flexibility of labor markets and the competitiveness of the Panamanian economy, while also identifying alternatives to soften the impact and increase the speed of adjustment to reforms (3 person-months estimated); and,
- . Trade reforms, to reduce the effective rate of protection granted to domestic industry and agriculture, increasing their efficiency and reducing the burdens borne by Panamanian consumers. (2 person-months estimated)

In order to ensure that policy reform efforts supported by the Project would not risk failure for lack of adequate participation, dissemination, and discussion, a formal procedure for developing short-term technical assistance requests was stipulated in the Project design -- "All technical assistance requests from the CU will have to identify as appropriate: the economic policy to be formulated or implemented; the time frame for implementation; the multi-ministerial task force assigned to it; the necessary role the advisor is expected to play in bringing about change; a description of how the Legislative Assembly will be advised of the findings and

recommendations of the task force; and how the findings and recommendations of the task force will be made public".

These elements, summarized in Table 1. below, constitute the essential design features of the Economic Policy Component that provide a framework for the examination of Project implementation which is presented in the following sections.

Goal: Sustained economic growth with widespread benefits	
Purpose: To assist Panama in expanding and strengthening the process of economic policy making	End of Project Status: . MIPPE initiated process incorporates implementing Ministries in policy analysis, formulation and debate; . MIPPE initiated process directly leads to significant economic policy changes in 3 sectors; . Economic information necessary for policy reform supplied in a timely manner.
LOP funding:	\$2,400,000
Inputs:	Long-term TA 41 person-months Short-term TA 77 person-months procurements \$65,000
Outputs: . Analysis/support of economic reforms . Improved CSS Financial System . Computerization census & statistical reports	Social Security system Healthcare financing Multiyear budgeting Public procurement Customs administration Trade policy Privatization Labor policy

2. Responses to Specific USAID Evaluation Questions

The following questions were provided by USAID/Panama in regard to the Project's performance relative to its design. Each of USAID's questions is highlighted and answered in turn below, while additional findings of the evaluation team are presented in the next section.

a. Has the Component evolved as designed?

While the Project's Economic Policy Component of course resembles the design presented in the Project Paper in most ways, the Component's evolution has sharply deviated from its design in the most fundamental strategic sense. While it has fulfilled many of the direct advisory and analytic functions called for in the design, it has substantially failed to develop an effective means

of generating broader participation in policymaking and discussion, either by members of the Panamanian government at levels responsible for implementation, or by the Panamanian general public. The GOP's economic policy reform program has lost impetus in recent months, while resistance apparently has grown in several key areas. One is compelled to ask whether -- as originally suggested in the Project's strategy statement -- failure to implement a broader range of economic reforms is not at least in part due to continuing failures to adequately present the case for reforms and build an effective consensus for their implementation.

As called for in the design, a Senior Macroeconomic Advisor was recruited and placed in a position to provide day-to-day assistance to members of the Coordinating Unit at MIPPE, as well as to interact with other members of the GOP and the donor community, and coordinate the activities of short-term consultants recruited for the Project.

Useful short-term studies have been prepared on several of the key issue areas identified in the Project Paper, particularly actuarial studies for the Social Security system's pension plans, an evaluation (still in draft) of the Panamanian labor code, and a series of analyses that have contributed substantially to recent moves to eliminate specific import duties and replace these with ad-valorem tariffs. Surprisingly, though, no short-term resources have as yet been allocated to either Budget Policy and Administration, or to supporting Privatization efforts in any way, despite the Project Paper's having estimated that 54 out of a total of 77 person-months of short-term TA (70 percent) would be dedicated to these two priority areas.

The technical assistance team and their counterparts at the CU made some efforts to generate an effective communications program, particularly during the early stages of the Project in late 1991 and early 1992. Particularly, the efforts of the Senior Macroeconomic Advisor to communicate through the periodic publication of newsletters on economic policy issues (which came to be known as "MIPPETAS"), and his extensive participation in seminars, conferences and other public events, should be both noted and commended. However, there is little evidence that Project management adhered for very long to the procedures suggested in the Project Paper to ensure the participation of other ministries in the formulation of policy -- namely the establishment of functioning inter-ministerial task forces to implement short-term studies with the support of Project-financed consultants -- and little effort was made to disseminate the results of studies either through seminars/conferences, or by publication, or even through the distribution of copies to key agencies of government and the private sector.

Most government officials outside of MIPPE who were interviewed, particularly those at a policy-implementing rather than a policy-making level, indicated that they were not aware of the studies and other analytic work performed by the CU or the

technical assistance team. They did not receive copies or notices of the work performed by the Project, and had not, in most cases been advised of the existence or functions of any interministerial task forces.

More telling still, the Chief of the Economic Planning Department within MIPPE itself indicated that his office had never received copies of any of the technical studies prepared by the Project, even though they had been asked to prepare data for such studies on two occasions, and despite the fact that 3 former members of the Department had been granted leaves-of-absence (leaving the Department itself short-staff) to serve with the CU. A senior member of his Department, who currently participates in an interministerial commission that is drafting Panama's presentation for accession to the GATT, had not been informed of and had never seen any of the trade-related work performed by the CU and the technical assistance team. At minimum, these officials indicated, the Department should have been made aware of the analytic work being done by the CU so as to allow them to better plan and coordinate their own internal activities. Obviously, some additional participation in the performance of the analyses would have been welcomed as well.

When queried on this issue, CU and Project management staff indicated that time pressures had been too great to allow the Unit to devote attention to the development of more participatory working arrangements, or to concentrate more time and resources on dialogue and communications activity. Unfortunately, the consequence of not having devoted time and resources to such efforts may be the failure of the proposed policy reforms to achieve much progress, especially in such key areas as privatization and public investment planning.

- b. How effectively have the technical assistance activities been managed? Was the technical assistance appropriate for the needs that were addressed?**

Other than the apparent inability of Project management to take the actions that would have been necessary to make sure that the Project achieve its basic outreach/participation/dialogue purposes, management of most of the technical assistance activities undertaken by the Project appears to have been adequate. Generally minor problems relating to the timeliness of both technical and administrative reports did occur, and difficulties with the recruitment and scheduling of short-term activities were also reported. On a couple of occasions, the timeliness issue was relatively serious, as opportunities to present study results at donor meetings or other similar events were missed. Given the nature of the demands on qualified short-term consultants, and the need to balance timeliness against quality, such occasional missed opportunities are almost inevitable in a Project that involves any significant amount of targeted research and analysis by short-term specialists.

Importantly, the quality standards achieved in the program of short-term studies undertaken by the Project has been generally good. In only one case, out of 11 studies either completed or underway with the assistance of short-term consultants since late 1991, has there been any indication of serious quality problems, and, even in this case, the problems experienced appear to have been overcome with the intervention of the Senior Macroeconomic Advisor.

With regard to appropriateness, our view is that the subjects selected for study were in general relevant and important for the economic policy agenda set forth in the GOP's Economic Program. Some important areas of unfinished business, such as privatization and budget policy, have yet to be addressed by the Project, however.

- c. Has the Economic Policy Component involved appropriate counterpart actors/agencies in implementation in order to ensure achievement of objectives? Have all planned inputs been forthcoming?**

As already alluded to above, our general conclusion is that the Economic Policy Component has not adequately involved counterparts in implementation, and that at least some of the difficulties being experienced in achieving the overall objectives of the Economic Program may be attributed to this important deficiency. While every Work Order request submitted to USAID indicated that reports would be distributed within the GOP, and that consultants would present their findings to government officials, interviews conducted by the evaluation team indicate that this has in fact rarely happened. Presentations of policy analyses to the press or general public have been rarer still.

Other inputs (funding for TA, facilities, funding of the CU) appear to have been forthcoming and available to the Project in a timely manner.

- d. What if anything should be done to improve the Component's overall management structure and its approval process for the technical assistance activities?**

While we do not see a need to alter the management structure provided for in the Project's design, we do perceive a critical need for Project management to emphasize and strictly adhere to the approval process originally called for. In particular, it is fundamentally important that every short-term study actively involve the continuous participation of an inter-ministerial task force assembled specifically for the purpose, and, as stipulated in the Project Paper, approvals for every such Study must clearly state and adhere to a plan for informing both the Legislative Assembly and the public at large of the findings and recommendations of this task force.

Logistical and coordination problems in the operation of such task forces are to be expected and planned for. Some members will not live up to their commitments, others will drop out, and others may become openly critical. That is why continuity and leadership need to be provided by a special Coordinating Unit, supported by specific long- and short-term technical assistance. Despite the extra expense, difficulty and delays that will undoubtedly accompany the activation of inter-ministerial task forces -- not to mention the time, effort and expense that is associated with an effective communications program for disseminating policy analyses after they have been prepared -- we feel strongly and believe there is mounting evidence that the process of policy reform "unnecessarily risks failure" unless these efforts and expenditures are made as originally planned.

In addition, we believe that the technical assistance might usefully be applied to assisting the CU in improving its own internal planning functions. As it clearly can not address every issue to the same depth at the same time, it is important for the Unit to prioritize the components of the Economic Program and develop its own internal work plans accordingly. Clearly, such prioritization and planning would also help to ensure that technical assistance resources are clearly focussed on top policy priorities as well.

3. Other Findings: Performance vs. Design

The Project design anticipated the organization of a Coordinating Unit within MIPPE and proposed attaching the technical assistance provided by the Economic Policy Component to that Unit. It did not anticipate a situation in which the Unit was expected to serve two masters -- as has subsequently developed -- however, and implementation effectiveness is obviously being seriously affected by this unanticipated development.

It is important for AID, in safeguarding the value of the resources it is providing to the Project, to request that actions be taken by the GOP to clarify and unify the lines of authority which the Coordinating Unit and the technical assistance team are expected to follow.

4. Overall Assessment: Performance vs. Design

As indicated above, we have found that the Project's Economic Policy Component is not adhering to the original project design in some of the most fundamental and important aspects -- namely those pertaining to participation, outreach and dissemination in the policy development process. Further, we believe that the Project should adhere to these aspects of the original design, and that the necessary corrective actions should be taken without delay in order to avoid any further wasting of project resources.

B. Implementation in the Panamanian Setting

1. Introduction

In this section we respond, as requested by USAID/Panama, to questions that seek to assess the effectiveness of Project implementation not in relation to its original design, but, with the benefit of experience, in relation to events as they have actually unfolded in Panama since the Project was designed. As above, we will answer each question posed by USAID in turn, and conclude with other findings of the evaluation team and an overall assessment of implementation effectiveness in this context.

2. Responses to Specific USAID Evaluation Questions

- a. Was the design appropriate for Panama's needs and situation? Insofar as the implementation may not have coincided with the design, was this appropriate given the circumstances surrounding the Panamanian setting?**

As is undoubtedly evident from our responses to earlier questions, the evaluation team considers that the Project design was indeed appropriate for Panama's needs and situation. The design obviously drew heavily on the experiences gained through an earlier phase of the Project, as well as from the extensive discussions among the donor and multilateral agencies and the Government of Panama that were taking place at the time. Special additional analyses by a competent macroeconomist familiar with the Panamanian situation were contracted for the Project Paper, and thoughtful institutional analyses were also prepared.

The course of events subsequent to the completion of the project design has served to corroborate the importance and validity of the strategy proposed for the project in its original design. Far from justifying the deviations from that design that have in fact taken place, these events reinforce the need to emphasize participation and dialogue in the development of policy and the implementation of policy reforms. Events consequently reveal the urgency of implementing the procedures for implementing and disseminating policy studies originally suggested in the project design, and of strictly adhering to these procedures in the future.

- b. What is the team's overall assessment of the Component's impact to date? Has the investment been worth it to the GOP? Has the technical assistance made a significant contribution to the development and implementation of economic policies in Panama?**

In brief, the evaluation team's overall assessment is that the Component has added significantly to the development of policy in Panama, particularly during the Project's early stages when the basic outlines of Panama's Economic Program were being drawn, and the interaction of the various donor and multilateral agencies with the Government of carry out this program was being launched. The

Component's contribution to the implementation of policies has also had some successes -- notably in the areas of assessing the situation of the Social Security system and in contributing to the elimination of specific duties in the tariff system, as has just recently been enacted. The Government's -- and the Component's -- successes in implementing policy reform have been relatively few, however, when compared to the agenda originally set for the Economic Program.

Ongoing work being performed under the Economic Policy Development Component of the Project, such as that pertaining to the labor code and a series of studies aimed at evaluating the competitive position and policy options to develop specific agroindustries, may yet achieve a significant contribution to the implementation of policy reforms. Further, a significant amount of the short-term technical assistance resources committed to the Project remain unused, and these resources could well have a major impact in key areas that the Project has yet to address at all.

- c. If the achievements fall short of those expected, has this been due to design, implementation, external or other factors?**

In our view, problems that have been encountered with the Project to date are due partly to implementation, and partly to a series of external factors that have imposed an unusual degree of difficulty on the Project and its management.

Principal shortcomings in implementation include:

- . failure to insist on strict adherence to a Project activity approval procedure, outlined in the Project Paper, that was designed to ensure that each activity maximized the participation and contributions of other ministries in the process of policy formulation, and that adequate provisions be made in each case for dissemination and justification of analytical results before a wide audience;
- . failure to insist that such outreach and dissemination plans as were made be strictly adhered to in the course of implementing activities, including making sure that sufficient resources were allocated to such efforts in the activity budgeting process.

Additionally, it could be argued that more could have been done during the first year and one-half of Project implementation with the available resources, and that more should have been done during this critical early period to develop the intellectual foundations for policy reform in each of the key areas of the Economic Program. Had more been done earlier, it is at least possible that some of the resistance to reforms that has organized itself in recent months could have been averted or assuaged, and perhaps more could have accomplished legislatively before electoral

considerations took as firm hold of the major Panamanian political figures as appears to be happening now.

Finally, it is at least possible that the difficulties that have resulted from the physical separation of the CU and the rest of MIPPE staff, as from the division of their loyalties between the current and former Ministers of Planning, could have been anticipated and perhaps averted or attenuated by appropriate and timely action from USAID and the Project's technical assistance contractor. Deciding whether or not any effective action could in fact have been taken earlier to avoid the present situation is necessarily speculative, however, and this is an area where it is difficult to trace the line between problems attributable to implementation and those that should be laid to external factors.

Certainly, the Second Vice President's decision to relinquish the Ministry of Planning -- while retaining nominal control over the implementation of the Economic Program -- was a major external event which has, since last August, seriously impacted on the effectiveness of the Coordinating Unit and the Project's technical assistance program. While the Unit formally continues to be considered a part of MIPPE, its staff have mostly gone off the direct payroll of the Ministry -- being funded at least on a temporary basis through a special UNDP program -- and they have physically moved to offices contiguous to those of the Vice President. Understandably, utilization of the CU by the new Minister of Planning, and interaction between the staffs of the CU and their colleagues at MIPPE, have diminished considerably during recent months.

This situation has undoubtedly undermined both the CU and MIPPE. Many of MIPPE's offices and departments have been adversely affected by having lost some of their most senior and most talented members to the CU, which was able to offer more prestige, more power, and more money, at least for a period. Following the more recent relative estrangement between MIPPE and the CU, however, it is our impression that the latter unit has also lost in effectiveness by no longer having as close access to MIPPE's information sources and networks on a day-to-day basis. It is, all in all, an unfortunate situation that needs to be remedied before serious consideration can be given to continuing the technical assistance for the rest of the planned implementation period.

More generally, the divisions within the Panamanian government, and the resistance that has developed to reforms during the last year, are perhaps greater than could reasonably have been anticipated when the Project was getting started. The highly contentious and politically-charged environment in which the Project will need to continue functioning during the upcoming electoral period is undoubtedly a major external factor that has had some effect on implementation to date, and that, more importantly, needs to be given significant weight in deciding how to take corrective actions and improve the effectiveness of project implementation in the future.

C. Overall Assessment

1. Introduction

A final set of questions provided by USAID is aimed at drawing out an overall assessment of the Project's performance to date, and provide a framework for analyzing alternatives for the future. This final set of questions is addressed below.

2. Responses to USAID Questions

a. Does the project economic policy component adequately provide for the dissemination of study results?

Clearly it was the intent of the original project design that the dissemination of study results be an integral part of the CU's role. Throughout the project paper reference is made to the importance of wide dissemination of reports and study results. A special unit, the CU, was created and housed in MIPPE. The technical assistance funded by the project was located within the CU. In Section C-1 of the DEVTECH contract- Specific Tasks To Be Performed- one of the duties of the long term Senior Macroeconomic Advisor (SMA) recruited under the contract, was to publish and disseminate the short term consultant's reports. With regard to these short-term consultants, the contractor is instructed (Section C-2) based on requests from the Minister or Secretary General of MIPPE "...to recruit and contract qualified individuals...to carry out the analytical work identified or assist in implementation of policy reform."

Once the CU moved out of MIPPE and there was a change of Ministers, these instructions did not prove adequate to insure dissemination. The T.A. component and the CU apparently lacked the will or the funds and/or the blessing of MIPPE to disseminate the study results through other means such as MIPPE/CU sponsored seminars, workshops and promotional sessions in the Legislative Assembly and other public fora. The CU sees their role as one of "producing the product" and it is up to others to "sell the product". Others in the view of the CU are the heads of Ministries, MIPPE included, the President and members of Congress. What little dissemination went on was done by the Technical Assistance advisor, but many of the studies were delivered too few and too late. The delay factor on many of the studies meant that the impact factor was lost by the lack of timeliness to even those favored individuals that managed to receive a copy.

2. Does the project economic policy component facilitate dialogue between MIPPE and other GOP institutions?

It was the intent of the original designers of the project that this aspect be built into the CU, which was created by MIPPE to implement the reforms of its guidelines. This process was intended to incorporate implementing ministries and other GOP institutions in policy analysis, formulation and debate. The

technical assistance requests that emanated from this process were intended to identify the economic policy to be formulated or implemented; the time frame for implementation; and the multi-ministerial task force assigned to it. It was intended that this process would lead to significant economic policy changes. With one or two exceptions, this has not worked smoothly. There are several reasons for this including personal styles, a reluctance to widen the small group of advisors at the top of MIPPE and CU/MIPPE, and a strong tendency among all groups to allow political suspicion to take precedence over technical expediency.

This attitude on the part of MIPPE has tended to cause other offices in the public sector to regard it, and especially the CU, as a small group of technical elites that wish to keep all policy analysis to themselves. Only now, as a result of the economic training taking place among some of the mid-level public sector participants is this starting to breakdown. While it is still early to tell if this might become a vehicle to facilitate dialogue between the various working economists of MIPPE and the other institutions, it is a start.

3. How effective has been the role of the multi-ministerial task force? How are the members of the task forces selected? How should the way they are selected be changed, if at all?

This was an idea whose time should have come by now. A lot of thought and innovative ideas went into the design of the special unit within MIPPE, the CU, so as to be able to coordinate the multi-ministerial task force. Unfortunately, this has not been effective. Where there have been task forces formed to provide technical inputs into a study, either the member of the task force chosen has been functionally ineffective on a day-to-day operational basis due to his high position, such as a Minister, or, the task force rarely meets after the initial meetings and is allowed to effectively disband without further contribution. This has sometimes occurred when a supervisor or director of an institution changes and no longer wishes to have his people pursue the task or the study results are so slow in forthcoming that everyone loses interest.

The selection process itself seems to be carried out on an ad hoc basis by the Director of the CU. The process is informal and appears to be based on getting the political, as opposed to the technical, cooperation of the Ministry or institution involved in the economic analysis. The selection process should be based on technical criteria. It should allow for the participation of individuals from the technical level, with the active concurrence of their immediate supervisor. In the naming of future task forces, the utilization of those economists that have successfully participated in the economic training course should be included as part of a working group.

4. **Has the project economic policy component contributed to institutional strengthening of the Coordinating Unit? What more can be done?**

Yes, especially in the short run. When the Coordinating Unit moved out of the MIPPE building and over to the Vice-President's Office of Economic Policy Reform in the Bank of Boston building, they were able to take the top economists from the MIPPE Department of Economic Planning, with them. The DEVTECH macroeconomic advisor also moved his office in order to stay with the CU. Being involved in the analytical work of the studies has contributed to the professional esteem and experience of the economists of the CU.

However, over the long-run, this strengthening process could bring about the demise of the unit by isolating it from the rest of MIPPE. Old antagonisms and a lack of communication on the working level have been allowed to fester between the CU and other ministries and institutions. If a new Minister of MIPPE were to decide to do away with the CU, there will be no constituency to bring pressure or plead the CU's case.

5. **What would the role of the project economic policy component be in the event of slower than anticipated progress in implementing reform? In the event that the reform program is suspended?**

The role of the project economic policy component is, in many of its aspects, a well conceived idea, whose time may well have arrived, but whose implementation still lags behind. The role should remain as outlined in the Project Paper, but like a difficult and controversial trial, a change of venue would help. Both the CU and the technical assistance advisor should be moved back to the Ministry of Planning and Economic Policy. Slower than anticipated progress in the reform program, as may occur due to the maneuvering for upcoming elections, or a total suspension of the economic reform program, which still seems unlikely, should lead to USAID's consideration of transferring some of the financial and T.A. resources to the other two components of the Project, and deobligating any residual balances, if necessary.

6. **Should the short-term/long-term mix of technical assistance studies be revised?**

In our view, the original conceptions of the Project Paper with regard to the long- and short-term technical assistance mix continue to be valid. Consequently, we believe that the position of Senior Advisor/Resident Technical Assistance Manager should be maintained, and that the selection of long- and short-term consultants to perform studies and technical assistance activities required to advance the purposes of the Project should be dependent on Project needs. The presumption put forward in the Project Paper, that the needs of the Project would primarily involve short-term consultants, is also still valid, and the commitment of resources to any long-term efforts under the project should be

carefully justified prior to approval. However, we see no reason for this option to be foreclosed at this time.

IV. ADMINISTRATIVE & FINANCIAL MANAGEMENT

The administration and management of the component has been a complex task, compounded by the myriad signals and commitments received by the Project Officer from the DEVTECH resident Senior Macroeconomic Advisor (SMA) as he provides services to support MIPPE's Coordinating Unit. Monitoring has been carried out in an efficient manner by the USAID Project Officer which speaks highly of her management abilities. This is a difficult project to manage. Of the Economic Policy Development Project, over fifty percent of the Project Officer's work time is devoted to the Economic Policy Component. Project files, task orders, SARs and other management and financial reports and schedules are used to track the status of the T.A. contractor. Task orders, utilizing the services of a number of short-term consultants, addressed various issues, such as social security, tariff policy, economic integration and more. In all, 16 Task orders for studies have been approved. Ten have been completed, and 6 are in process. Four were not approved, 2 of which are being re-formulated according to instructions from USAID. One was cancelled. (See Annex 3).

OEPP, together with the other Mission offices responds in a timely fashion to requests for technical assistance, i.e., task orders, from the CU and the contractor. In only one instance, a recent approval request involving proposed assistance in public investment planning, did discussions between USAID and other donors on the subject occasion any significant delay in processing at the Mission. The length of time taken per response is usually seven days or less, from the day the written request is received until the papers go through the USAID system and the approval or denial is communicated to the contractor.

The administration of the component is weak on the implementing side. The T.A. contractor office located in MIPPE has not been able, despite an extremely knowledgeable SMA, to avoid delays and obstacles to carrying out many of the tasks. Much of this has been beyond the control of the contractor. A swarm of unpredictable variants had an unmeasurable influence over the success of the T.A. component, factors which no project design can anticipate. The moving of the CU from the MIPPE building to the Bank of Boston; the Presidential Decree of August 1992 (See Annex 5); the change in political approach with regard to economic reform due to changeover of key personnel within MIPPE and a deemphasis on promotion by the CU were all factors influencing Project implementation adversely despite the contractor's best efforts to overcome their effects.

The financial data for the project as a whole shows a low total obligated and authorized expenditure ratio for a stage a little beyond the midpoint in the project's life, i.e., disbursements in relation to obligations and authorizations of 27% and 25%, respectively. However, when one takes the Economic Policy Component alone, accrued expenditures are shown to be closer to what would be expected at this stage than appears from the global

figures, with such expenditures through March 31, 1993 representing 42% approximately of obligations.

With approximately seventeen months left to go until the end of the project, there is still \$1.2 million left in the component to be used for technical assistance during this period.

V. RECOMMENDATIONS

The evaluation team was asked by the Mission to recommend attainable corrective courses of action for the Component that can be completed over the short run. The following recommendations are those that the teams feels are valid based on our findings and that are doable; that is, they are areas that fall within the control of the project as it is now structured and of the key officials within USAID/Panama and the GOP entities.

1. Request the GOP to clarify lines of authority and responsibility for the Coordinating Unit. Specifically, some formal agreement between the Minister of Planning and the Vice President needs to be achieved. The preferable outcome is for the Unit to return to MIPPE, and for the technical assistance advisor and short-term specialists to return with it.

2. Require contractor management to adhere to approval procedures outlined in the Project Paper. In particular, the resident Macro-economist must assure that strict adherence is paid to the following points;

- . every short-term activity must involve an interministerial task force (with strong leadership from MIPPE);
- . every short-term activity must plan and assign resources to dissemination and dialogue activities.

3. Require contractor management to implement task force development and dissemination plans as approved for each activity.

4. Increase the pace of project implementation, and reduce delays in the organization and delivery of work products from short-term T.A. It should be emphasized to the consultants during an initial orientation that the value of the studies lie in their timeliness.

5. Encourage/assist the Coordinating Unit to develop quarterly work plans in which activities are prioritized in light of policy importance rather than ease of implementation; develop contractor work plans in conjunction with the Unit's plan.

6. Reexamine the allocation of project short-term resources in conjunction with policy priorities developed in step 5; in particular, try to activate work on: developing a rationale and consensus for privatization; directly addressing fears of employment losses from liberalization/privatization; developing credible programs to alleviate temporary adverse employment effects of the Program; establishing economic criteria for public investment and developing systematic, transparent procedures for evaluating public investment options.

7. Recruit a new resident senior advisor. To respond to current project needs effectively, strong technical competence in macro and

development economics should be complemented by personal characteristics including objectivity, balance and persuasiveness, and prior experience at organizing large-scale educational/communications/information efforts, and excellent personal communications skills in Spanish should be required.

8. Investigate absorptive capacity of other Project Components and be prepared to reassess resources if effective means of utilizing them for Economic Policy Development can not be generated within a maximum of two months. The Training Component has apparently been effective, and could use a modest amount of additional resources.

9. Economic Training Component should be utilized as a disseminating and promotional tool for the Economic Policy Component. Class-room work groups, consisting of participants from the various ministries are now engaged in study exercises, built around special topics. Not only has this been an effective and cohesive learning tool, but could be used as a model for the inter-ministerial task force groups involving the participant's supervisors. Additional resources mentioned in item 8, above, should be utilized for follow-on seminars and work-shops for this year's graduating participants as well as their immediate supervisors. This will tend to reinforce inter-ministerial communication links at the working level.

10. Use some of the resources referred to in item 8 to select the top ten participants from each year's graduating class for further training to the MA level at a U.S. University, conditioned on their return to their Ministry unit for a set period such as two years.

ANNEXES

PURCHASE DESCRIPTION/STATEMENT OF WORK: Evaluation of the Economic Policy Component of the Economic Policy Development Project No. 525-0313.

Background

The Economic Policy Development Project was designed and obligated in 1991. The purpose of this project is "to assist the GOP [Government of Panama] in expanding and strengthening the process of economic policy making." The Project has three components with activities that strengthen and expand the above-mentioned process: (i) Economic Policy; (ii) Economic Training; and (iii) Canal Management and Development Plan. The Economic Policy component funds technical assistance to the Ministry of Planning and Economic Policy (MIPPE) for the development and implementation of economic policies. The role of the institutional contractor in the Project is that of technical advisor to the implementing institutions. Short-term and long-term economic technical assistance is provided under the component to analyze various priority area issues. In addition, one long-term macroeconomic advisor is funded to provide advice to senior level Panamanian leaders.

Under the Economic Training Component an in-house training program has been initiated by an educational institution to upgrade the economic capacity within the GOP. It complements the technical assistance efforts of the Economic Policy component by concentrating part of the training on priority areas for economic reform.

The Canal Component provides funding to assist the GOP and private sector to identify and quantify the impact of the choices Panama must make regarding operation and management.

The Economic Policy Component was initiated in September 1991. Therefore, it is time to undertake the first of two evaluations contemplated in the Grant Agreement. This evaluation must be done by an entity external to the Project. The first evaluation will assess progress under the component with assisting the GOP to implement an economic policy reform program. Areas to be covered in the assessment include (i) the operation of the Component and (ii) the extent to which the Component is meeting its objectives.

Statement of Work

In evaluating the Economic Policy Component, the Mission requires an outside, objective evaluation team to gather and analyze relevant component information and, if necessary, recommend attainable corrective courses of action for the Component that can be completed over the short run.

The team's efforts will be directed at addressing, but not necessarily be limited to, the following:

a. Examine the Component's general implementation to date and compare it to the description of the Economic Policy Component. In this respect, the following should be addressed:

1. Has the Component evolved as designed?
2. How effectively have the technical assistance activities been managed? Was the technical assistance appropriate for the needs that were addressed?
3. Has the Economic Policy Component involved appropriate counterpart actors/agencies in implementation in order to ensure achievement of objectives? Have all planned inputs been forthcoming?
4. What if anything should be done to improve the component's overall management structure and its approval process for the technical assistance activities?

b. Analyze the Component's implementation achievements to date based on the Panamanian setting.

1. Was the design appropriate for Panama's needs and situation? Insofar as the implementation may not have coincided with the design, was this appropriate given the circumstances surrounding the Panamanian setting?

2. What is the team's overall assessment of the Component's impact to date? Has the investment been worth it to the GOP? Has the technical assistance made a significant contribution to the development and implementation of economic policies in Panama?

3. If the achievements fall short of those expected, has this been due to design, implementation, external or other factors?

c. If/where appropriate, recommend possible changes in the current Component design and/or implementation that would improve the Component's impact.

d. Specific questions that the evaluation team should address are as follows:

1. Does the project economic policy component adequately provide for the dissemination of study results?

2. Does the project economic policy component facilitate dialogue between MIPPE and other GOP institutions?

3. How effective has been the role of the multiministerial task force? How are the members of the task forces selected? How should the way they are selected be changed, if at all?

4. Has the project economic policy component contributed to institutional strengthening of the Coordinating Unit? What more can be done?

5. What would the role of the project economic policy component be in the event of slower than anticipated progress in implementing reform? In the event that the reform program is suspended?

6. Should the short-term/long-term mix of technical assistance studies be revised?

Team Qualifications/Responsibilities

A two person team will undertake this evaluation. The team leader must have experience in project assessment, including designing and implementing technical assistance activities in a developing country context, and the other team member should have experience in economic policy analysis and LDCs economies. Both team members must be fluent in Spanish.

The team is expected to examine all relevant project and related documents, interview selected personnel of participating institutions (i.e., USAID/Panama, the Ministry of Planning and Economic Policy, Technical Coordinating Unit for the Economic Program, participating ministries and government agencies, contractors), analyze the information gathered and reach an internal team consensus on its findings and conclusions.

It is anticipated that approximately three weeks will be required to perform the evaluation, including the report write up and Mission debriefing. The team will report to the Economic Policy Development Project Manager who will assist in the identification of appropriate documents and project contacts and who will serve as a resource person to the team in fulfilling the statement of work. The team is solely responsible for the contents of its evaluation.

Reports

Four days prior to departure from Panama, the team will present a draft report of its findings to the Mission for review and discuss it with the Mission in a debriefing session. Based on these discussions, the team will finalize its report, and submit it to the Economic Policy Development Project Manager prior to departure from Panama. The presentation of the report will be the basis for payment.

Annex 2. List of Persons Contacted

Kermit Moh
Chief, Private Sector Department, USAID/Panama

Virginia Speidel
Contracts Officer, Executive Office,
USAID/Panama

Kevin Kelly
Director, USAID/Panama

Robert Mathia
Chief, Project, Program & Economic Planning,
USAID/Panama

Dr. Rolla Pimentel
Ministro, Ministerio de Salud

Lic. Jorge García Vega
Director de Planificación,
Ministerio de Comercio e Industrias - MICI

Lic. Jorge Endara
Director, Caja de Seguro Social

Luis Sánchez-Masi, Representante
Helen Edwards, Especialista Sectorial
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Macroeconomic Advisor, DEVTECH, Ministerio de
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Lic. Hernán Arboleda
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Lic. Manuel Flores
Jefe del Departamento de Planificación Económica,
Ministerio de Planificación y Política Económica - MIPPE

Lic. Maritza Salazar
Planificadora, Unidad de Ciencias y Tecnología del Dept. de Planificación
Económica, Ministerio de Planificación y Política Económica - MIPPE

Dr. David Hansen
Chief of Party, Iowa State University

Dra. Luisa de Soto
Directora, Unidad Técnica de Coordinación del Programa Económico, UTCPE/MIPPE

Lic. René Luciani
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Lic. Delia Cárdenas
Ministra, Ministerio de Planificación y Política Económica - MIPPE

Ing. Carlos Qvistgaard
Analista de Políticas, Ministerio de Desarrollo
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Ing. Juan José Franco
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Lic. Roberto Alfaro
Ministro, Ministerio de Comercio e Industrias (MICI)

Lic. Helly Quirós
Directora Nacional de Prestaciones Económicas,
Caja de Seguro Social

Lic. Elsebir de Castellero
Jefe Actuarial, Caja de Seguro Social

Harry Dorcus
Comptroller, AID/PANAMA

David Norland
Economic Section, U.S. Embassy/Panama

Annex 3. List of Short-term Studies

525-0313 Economic Policy Component
 Technical Assistance

April 28, 1993
 PPEP, USAID/Panama

Task Order No.	Study	Contractor/ Subcontractor	Status
01	External Debt	A-DEVTECH B-Socimer Internat'l	Completed.
02	Price Survey	DEVTECH	Completed. Data collected is to be used in the study of effective protection (Task Order No. 17)
03	Agricultural Program Assessment	DEVTECH	Completed.
04	Separation of Costs (Health financing)	DEVTECH	In process. Preliminary Draft pending.
05	Revise Actuarial Projections of Old Age & Handicapped Program	DEVTECH	Completed.
06	Task Order No. skipped in T.O. Numbering Sequence.		
07	Evaluation of Future Role of Price Control Office	MBA	MBA not approved.
08	National Mortgage Bank (BHN)	DEVTECH	SOW needs work, consultants proposed not approved. SOW has been reformulated. Presentation of T.O. to MIPPE pending.

Task Order No.	Study	Contractor/ Subcontractor	Status
09	Advice to MIPPE on TA and Implementation Strategies of the IFIs Program	DEVTECH	Completed. Consultant came but not report re-received.
10	Terms of Reference for Study of Potential Economic Integration with Central America	DEVTECH	Completed.
11	Dairy Industry Study.	DEVTECH	Preliminary Report received. Final version almost ready.
12	Sugar Industry: Determine Tariff Protection Level	DEVTECH	Not Approved, due to Restrictions under Foreign Assistance.
13	Tomato Industry: Determine Tariff Protection Level	DEVTECH	Preliminary Draft pending.
14	Actuarial Study of the Complementary System w/Emphasis on Public Sector Pensions.	DEVTECH	Completed.
15	Transformation of Price Control Office. (Replaces Task Order No. 7)	DEVTECH	Final Report pending.
16	Irrigation Study	DEVTECH	Rejected. Does not classify as TA for finalizing and implementing policy reforms.

Task Order No.	Study	Contractor/ Subcontractor	Status
17	Effective Protection Study	DEVTECH	Study in Process. Preliminary Draft pending.
18	Preparation of SOWs for the BHN and BDA studies	DEVTECH	A.I.D. Clearance Granted. COP has informally indicated task has been cancelled.
19	Possible Integration Strategies	DEVTECH	Completed.
20	Task Order No. skipped in T.O. Numbering Sequence.		
21	Comparative Analysis of legal frameworks in the labor markets of Panama and selected neighboring countries	DEVTECH	Completed.
22	Assessment of GOP's economic program in Preparation of World Bank Mission	DEVTECH	Completed. Consultant came but no report received.
23	Public Sector Investment System	DEVTECH	Not approved by A.I.D. Recommendation made to divide task into two phases. SOW for first phase, pending MIPPE's approval.

SECTION C - DESCRIPTION/SPECIFICATIONS/WORK STATEMENT

A. BACKGROUND

Panama is emerging from a severe political and economic crisis which culminated in the events of December 20, 1989. The loss of national income and employment in the two previous years has been substantial. The new government and the private sector are now taking steps necessary to reactivate the economy.

In January 1990, the United States Agency for International Development resumed assistance to Panama. The initial assistance granted to Panama was for the purpose of emergency humanitarian assistance and immediate economic recovery.

One of the urgent areas for action was reform of economic policy. The previous dictatorial government had undermined economic institutions and the national budgetary process. Moreover, the deep recession of the late 1980's had been compounded by longstanding economic policy weaknesses: high rates of protection for industry and agriculture, excessive employment in the public sector, inefficiency and high costs of public enterprises, and costly labor policies that help to make Panamanian products less competitive in international markets.

The Endara government put economic policy reform among its top priorities for immediate attention. Negotiations were begun in early 1990 with the International Monetary Fund (IMF) for a Stand-by agreement with the World Bank and Inter-American Development Bank (IDB) for an Economic Recovery Loan. Conclusion of negotiations for both programs is necessary for the finalization of a Paris Club official debt rescheduling and for contributions by members of a Panama Support Group to clearance of the country's substantial debt arrearages with the international financial institutions.

The Government of Panama's proposed policy reform agenda contemplates actions to correct a wide range of economic problems. The implementation of the program, however, has been slow. Delays have arisen because Panamanian officials at the policy level have had to allocate their scarce time not only to the numerous issues arising from the desired economic reform, but also to the task of forming an institutionalized government, establishing democratic institutions and providing assistance to the people adversely affected by the political turmoil of recent years. At the technical level, a necessary first step to implementing reform has been the building of trust between the incoming government and the retained permanent civil service that had served the Noriega regime and its predecessors. The cultivation of open lines of communications and of the confidence to delegate the work involved in implementing the reforms within and across Ministries and agencies of the government has been a difficult task and has also introduced delay into the process of reform.

A further factor complicating the reform process is one more common to Panama's neighbors in the region, namely the political consensus building necessary to implement policies that end favored treatment for clearly identified interest groups. The process of

reform in Panama has been slowed by the need for negotiation with affected groups, and some reforms have been watered down or put on a protracted timetable.

USAID/Panama provided assistance to the Ministry of Planning and Economic Policy (MIPPE) under its Immediate Recovery Program to hire two full-time economic advisors and contract technical studies necessary to develop and accelerate implementation of the Government's reform program and to advance negotiations with the international institutions. The activity financed was designed as a short-term effort with the narrow objective of helping the Government of Panama gain access to international donor and institution resources as quickly as possible. The Government of Panama has more recently turned its attention to implementation of its proposed economic policy agenda over the medium term and has requested USAID assistance in continuing to support policy reform efforts through technical and commodity assistance. The Project Coordinator will be MIPPE's Secretary General.

Based on the GOP's request for further technical assistance in the area of economic policy analysis and implementation, USAID/Panama recently signed a new project with MIPPE - the Economic Policy Development (EPD) Project. The new project has three components: Economic Policy, Economics Training, and Canal Studies. The first component provides funds for long and short-term technical assistance to MIPPE.

B. OBJECTIVES

The EPD Project purpose is to assist the GOP in expanding and strengthening the process of economic policy making. The objective of this contract is to provide long and short-term technical assistance to MIPPE for analysis and implementation of economic policy reform.

C. SPECIFIC TASKS TO BE PERFORMED

1. Provide a long-term Macroeconomic Advisor to MIPPE's new Coordinating Unit (CU) for Economic Reform

The Contractor will recruit a senior, PhD level macroeconomist to provide expert advice on all aspects of economic policy reform to the Minister, Vice Minister, Secretary General and the Chief of MIPPE's CU and his/her staff. The Senior Macroeconomic Advisor (SMA) will have the following responsibilities relating to economic policy:

a. Serve as advisor on macroeconomic stabilization policy, analyzing the consequences for the economy of government fiscal policy, including the impact of alternatives on overall economic activity, fiscal balances and external balances.

b. Assist the Government of Panama in developing and implementing a financial program to restore access to assistance from the international financial institutions. This should include advice and assistance in developing a bridge financing package to clear arrears, and advice on optimal means for obtaining future funding from these institutions, including a stand-by arrangement with the International Monetary Fund.

c. Undertake specific tasks in the fields of macroeconomic stabilization and relations with the international financial institutions as requested by MIPPE.

d. Advise MIPPE regarding activities relating to the implementing policy reform.

e. Review GOP macroeconomic projections and advise MIPPE on their implications for meeting the quantitative targets of the GOP policy reform program.

Specific professional requirements for the advisor include:

a. Full professional competence in Spanish and English.

b. Demonstrated competence in macroeconomic stabilization policy, including at least 10 years of experience on such issues relating to developing countries, and demonstrated knowledge of technical aspects, including relevant models, of the construction of such programs.

c. Broad understanding of the policies and operating modalities of the International Monetary Fund, the World Bank, the Inter-American Development Bank and the Agency for International Development.

d. Demonstrated professional experience in international debt issues, including understanding of the technical issues relating to renegotiation of debt with commercial banks and official creditors, including the operation of Paris Club and other debt-rescheduling mechanisms.

e. Demonstrated professional experience in development of economic stabilization programs in Latin America, including awareness of the major implementation problems of such programs and extensive knowledge of the major factors in development of successful programs.

f. Previous professional experience with the financial issues relating to policy in Panama is highly desirable.

The SMA will be resident in Panama for the duration of the Contract to assure continuity in provision of economic advice. The SMA, with the assistance of his/her firm, will also (1) arrange for short-term technical assistance as requested by MIPPE, including assisting MIPPE staff, (2) prepare scopes of work and publication of consultant reports and their dissemination, and (3) serve as the Contractor's representative in Panama for the purposes of this Contract.

2. Provide Short-term Technical Assistance

Based on requests for technical assistance from the Minister or Secretary General of MIPPE, the Contractor will recruit and contract qualified individuals to travel to Panama and carry out the analytical work identified or assist in implementation of policy reform. The Project Agreement establishes that any requests for TA must be linked to specific GOP plans to pursue economic reform and must provide expertise not available among MIPPE staff. It is contemplated that a total of 77 person months of short-term technical assistance will be provided over the life of Contract.

The specific areas set forward in the Agreement as illustrative of the technical assistance to be provided are the following:

- a. Social Security, including the national system for healthcare financing.
- b. Budget Policy and Administration.
- c. Privatization (including reform of public enterprise management).
- d. Labor Policy, and
- e. Foreign Trade Policy Reform.

It is expected that virtually all of the technical assistance provided will be short-term. In certain cases, however, MIPPE may elect to request long-term technical assistance for policy reform implementation.

The Contractor will make all logistical arrangements for consultants hired under the Contract, including those related to preparation and translation of final reports. MIPPE will provide office space on an as available basis for visiting consultants.

3. Timing of the Tasks Outlined

a. Given the nature of the difficulties being faced by the GOP, it is essential that the Contractor be able to mobilize the technical assistance as soon as possible. The SMA, to be proposed by the Contractor and approved by USAID/P, should arrive almost immediately, and in any event, no later than two weeks after execution of this contract, unless USAID/P agrees otherwise.

b. The Contractor will also mobilize any other consultants on an urgent basis (i.e., no later than two weeks after USAID/P has approved the specific consultancy), unless AID/P agrees otherwise.

c. Upon the signing of the contract, the Contractor, after consultation with GOP counterparts in office(s) in MIPPE for which the technical assistance was requested, will prepare a detailed workplan for the first six months of the contract, indicating the tasks to be performed, the timing of each task, and the estimated date of completion. Thereafter, updated workplans will be prepared quarterly by the Contractor. The workplans will be submitted to the USAID/Panama Office of Economic Policy and Programs for approval.

4. Approval of Task Proposals and Arrangements for Technical Assistance

a. Any requests for technical assistance will normally be originated by the GOP, represented by MIPPE, through the Office of MIPPE's Secretary General. The short-term technical assistance requirements should be defined in direct consultation between the Contractor, USAID/P's Project Manager, and an official from MIPPE. If a particular task involves an agency

different from MIPPE, a responsible official of such agency would also participate in defining the scope of work. Initially, the task will be defined on a preliminary basis and include the terms of reference, level of effort (person months), personnel needed, and the estimated costs. USAID/P approval of each proposed task will be required.

b. If the proposed task does not require assistance beyond the capability of the SMA, further USAID/P approval is not required. For each task that requires other short-term consultants to be brought in by the Contractor, prior approval by USAID/P will be required if there is a change in level of effort and/or in the estimated costs of the initial task proposal approved by USAID/P.

c. Once USAID/P approval is given, the Contractor's office in the U.S. will be responsible for contract agreements with individuals or institutions. The Contractor will be responsible for advancing subsistence allowances and transport reservations and ticketing, etc.

(End of Section C)

DECRETO No. 17

(de 27 de agosto de 1992)

EL PRESIDENTE DE LA REPUBLICA,
en ejercicio de sus facultades constitucionales y legales,

CONSIDERANDO:

Que el Gobierno Nacional aprobó en Consejo de Gabinete, mediante Resolución de Gabinete No. 71-A, de 14 de mayo de 1991, el Programa de Desarrollo y Modernización de la Economía, a propuesta del Ministerio de Planificación y Política Económica;

Que constituye una prioridad del Gobierno Nacional continuar todas las gestiones encaminadas a asegurar el cumplimiento de las metas, proyectos y programas contenidos en el expresado Programa de Desarrollo y Modernización de la Economía;

Que la elaboración de la propuesta del Programa de Desarrollo y Modernización de la Economía, recayó en su calidad de Ministro de Planificación y Política Económica, en el Segundo Vicepresidente de la República;

Que la ejecución del Programa de Desarrollo y Modernización de la Economía, demanda un seguimiento permanente por parte de las entidades públicas que tienen a su cargo proyectos y programas específicos dentro del mismo; y

Que es función que ejerce por sí solo el Presidente de la República, coordinar la labor de la administración y de los establecimientos públicos, y asignarle a los Vicepresidentes de la República las funciones y misiones que considere oportunas;

DECRETA:

Artículo 1º: El Segundo Vicepresidente de la República tendrá a su cargo la coordinación, dirección y supervisión del proceso de ejecución del Programa de Desarrollo y Modernización de la Economía, en todos sus aspectos, con sujeción a las directrices, políticas y lineamientos del Presidente de la República.

Artículo 2°: Para el ejercicio de sus atribuciones, se le asignan al Segundo Vicepresidente de la República las siguientes responsabilidades:

- a) Darle un seguimiento permanente al proceso de ejecución del Programa de Desarrollo y Modernización de la Economía, en sus aspectos económicos, financieros y legales, informando al Presidente de la República los avances en dicha ejecución y, en su caso, las dificultades encontradas;
- b) Proponer al Presidente de la República y, en su caso, al Consejo de Gabinete, recomendaciones encaminadas al desarrollo óptimo de la ejecución del referido Programa de Desarrollo y Modernización de la Economía, con motivo del ejercicio de las atribuciones expresadas en el literal a) de este artículo;
- c) Rendirle al Presidente de la República y al Consejo de Gabinete informes periódicos sobre el desarrollo de la ejecución del Programa de Desarrollo y Modernización de la Economía, con respecto a cada uno de sus componentes, y formular recomendaciones para la consideración y decisión del Presidente de la República y del Consejo de Gabinete;
- d) Representar al Presidente de la República en los foros internacionales en los cuales participe la República de Panamá, con sujeción a las instrucciones y lineamientos que reciba del Presidente de la República;
- e) Representar al país en los Foros de Vicepresidentes del Istmo Centroamericano;
- f) ~~Realizar~~ Cualesquiera otras funciones que le asigne el Presidente de la República.

Artículo 3°: El segundo vicepresidente de la República, para el desarrollo de sus responsabilidades, recibirá el apoyo del Consejo Económico Nacional (CENA), a cuyas reuniones deberá asistir con derecho a voz.

Artículo 4°: La Unidad Coordinadora del Programa Económico del Gobierno Nacional, brindará apoyo a las gestiones del Segundo Vicepresidente de la República.

Artículo 5°: Todas las entidades públicas del Gobierno Central, así como las entidades descentralizadas brindarán el apoyo y la asistencia necesaria al Segundo Vicepresidente de la República para el desarrollo de sus responsabilidades.

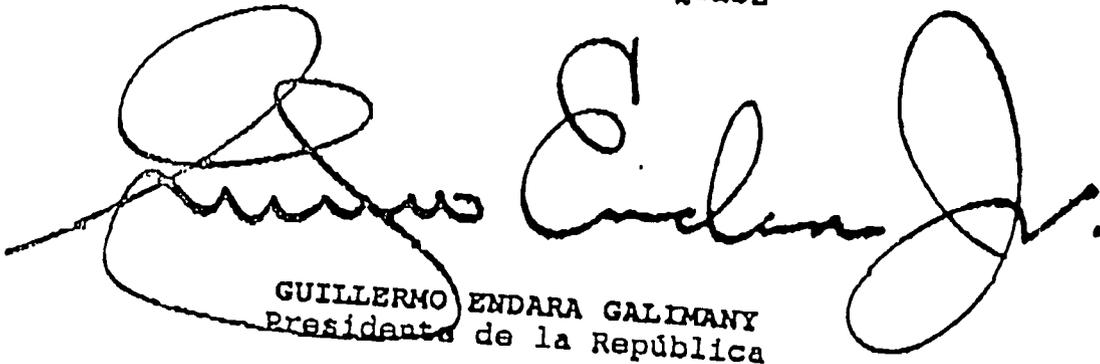
Artículo 6°: El Segundo Vicepresidente de la República asistirá, con derecho a voz, a las Juntas Directivas de todas las Instituciones del Estado que tengan que ver con el Programa de Desarrollo y Modernización de la Economía.

Artículo 7°: Los gastos inherentes al desempeño de las funciones asignadas al Despacho del Segundo Vicepresidente de la República, se harán con cargo al Presupuesto del Ministerio de Planificación y Política Económica.

Artículo 8°: Este Decreto comenzará a regir a partir de su aprobación.

Dado en la ciudad de Panamá, a los *veintisiete* días del mes de *agosto* de mil novecientos noventa y dos (1992).

COMUNIQUESE Y PUBLIQUESE



GUILLERMO ENDARA GALIMANY
Presidente de la República