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AGENCY FOR INTERNATIONAL DEVELOPMENT
PANAMA CITY, PANAMA

UNITED STATES GOVERNMENT
MEMORANDUM

ACTION MEMORANDUM FOR THE DIRECTOR

DATE: May 15, 1996
FROM: Joslyn Fearon, PPD *JF*
SUBJECT: Economic Policy Development Project (525-0313)

I. Purpose: Your approval is requested to amend the subject Project to authorize a \$500,000 increase in life of project (LOP) funding, from \$7.0 million to \$7.5 million.

II. Background: The Economic Policy Development Project was authorized on April 8, 1991. It provided \$5 million U.S. Dollars in grant funding and had a PACD of September 30, 1994. The purpose of the project was to "assist Panama in expanding and strengthening the process of economic policy making." Funding was provided for three components: (a) a Policy Component to address immediate economic policy needs and to improve the policy making process; (b) an in-country Economic Training Component to address the serious weakness identified in the quantitative and analytical skills of a majority of public sector economists; (c) and a Canal Component to assist the GOP in preparing for the transfer of the Panama Canal and associated reverted areas.

Initial emphasis was given to the Policy and Training Components to address immediate issues related to Panama's economic crises and establish a basis for sustained economic growth. Over the period, emphasis shifted to the Canal Component. This shift resulted from the need to plan for the imminent transfer of the military bases and to complete advance planning for the transfer of the Canal and related properties, including establishing new GOP entities to administer these processes.

In response to the change in focus and the need for additional funds, the Project was amended on August 26, 1994 to: (a) increase LOP funding by \$1.0 million, from \$5.0 million to \$6.0 million, primarily for the Canal Component; (b) extend the PACD from September 30, 1994 to September 30, 1996; (c) add a third cycle to Economic Training; and (d) to set aside a total of \$200,000 from existing and new funds to continue supporting the GOP's Economic Reform efforts. The project purpose was also slightly altered to

highlight the shift in emphasis in the Project and now reads as follows: to assist Panama in expanding and strengthening the process of economic policy making and in its preparations for assuming responsibility of the Canal and reverted areas."

At the time of the amendment on August 26, 1994, it was envisioned that additional funds might be required to support the GOP in its efforts to plan for the transfer of the Canal and reverted military properties and that the PACD would likely require a further extension. To this end, a New Activity Description (NAD) was submitted as part of the 1996/1997 Panama Action Plan that provided for a three year extension of the PACD and an additional \$1 million in funding to continue assisting the GOP with planning for the Canal transfer and transfer of the areas to be reverted. As a result of the review, Canal Support was established as a priority area for the Mission (one of two Strategic Objectives for the next 4 years) and the NAD was approved via State 115724 issued May 11, 1995.

As per Amendment of June 21, 1995, \$275,000, along with \$125,000 available from the Policy Component, was added to the Project Administration element to fund the services of one FSN Project Manager (previously only partially funded) and to partially fund (50%) the services of a USPSC to assist with the accomplishment of the Strategic Objective as then planned. Funding for a USPSC was not envisioned in the NAD as submitted but was added as a result of the increased priority given the reversion/transfer objective.

III. Discussion

A. Amended Project Design

There is no change to the Project's goal or purpose. The PACD of the project was extended in June 21, 1995 and continues implementation of project activities through 1999, the year all military bases and properties are scheduled to have reverted and the year the Canal is transferred to the Government of Panama. The bulk of the additional funding (\$500,000) will be allocated to the Canal Component to support the InterOceanic Region Authority (ARI), the recently established Panama Canal Transition Commission, and its successor, the Panama Canal Authority (ACP), once the latter is established by law. The funding included in the amendment will continue to facilitate the GOP's efforts to plan for and implement the transfer and reversions and will be provided on a demand basis. It will finance the following types of activities:

- Implementation of the Canal Transition Plan developed with the assistance of the Project, and adopted by the Panama Canal Transition Commission.

Short- to medium-term consultants will be provided to help design management systems. Start-up assistance for the Commission, including organizational development, computer support and other equipment.

- Planning and reversion of military properties. USAID will help finance feasibility studies to identify potential uses of the sites, other short-term and medium-term technical assistance in real estate development and management, data base development/management and marketing. Some additional GIS equipment also will be procured. Funding will not, however, be provided to finance the cost of maintaining or securing the reverted areas or for toxic waste removal. Annex 1 to the Grant Agreement was modified to include this restriction.

- Increase in life of project funding (LOP) will be utilized in carrying out assessments and special tasks under the Project to respond in a timely and appropriate manner to the GOP requirements in the implementation of the Panama Canal transfer and the reversion of the reverted areas as well as to further achievement of the Special Objective (SpO) which is to Facilitate the Transfer of the Panama Canal and the Productive Use of the Reverted Properties in the Canal Area. Successful transition of the Panama Canal and the productive use of the reverted military properties will require adequate and timely technical assistance.

The budget retains \$200,000 in the Policy component set aside to provide support to the Ministry of Planning and Economic Policy and \$100,000 for evaluations. An evaluation of the Canal component was planned under the last amendment. However, activity under this component of the project has been focussed on specific tasks (Gorgas Hospital and Paitilla Airport Relocation to Albrook Air Force Station) assessments. The Government's efforts continued to be directed at passing the Constitutional Amendment and revising the ARI Law (both already accomplished). Efforts are now concentrated on developing a draft framework law for the Panama Canal Authority (APC) and its subsequent passage by the Legislature. Activity is expected to pick-up significantly over the next 8 months, provided ARI and/or the Transition Commission reach a Cooperative Agreement with the International Executive Service Corps. (IESC).

B. Beneficiaries

The project has and will continue to support the GOP's efforts to develop wide-ranging economic reforms, including decreasing tariff and quantitative trade barriers, and other policies to encourage investment and modernize the economy. By assisting the GOP in planning and utilizing the reverted areas for productive purposes, significant benefits can be realized in terms of employment and economic growth.

C. Waivers approved in the original project will continue in effect for the amendment.

E. Authority

You are authorized per Delegation of Authority No. 103.5.8b 2), Implementation of Strategic, Special or Support Objectives, to amend existing project, program, and other agreements and take other actions necessary to make the transition to the new ADS Managing for Results system; and No. 103.5.14b LAC Mission Directors and USAID Principal Officers (1) Strategic Planning authority pursuant to section 103.5.8a, except as provided for in ADS section 103.5.8a 2); (2) the authority to implement strategic, special or support objectives stated in section 103.5.8b, except signing FAA 632 (a) agreements.

IV. Recommendation

That you sign the attached Project Authorization No. 3.

Approved: *[Signature]*

Disapproved: _____

Date: 5-26-96

Drafted by: *Prodriguez* 05/14/96
PRodriguez:04/20/96
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Clearances: GDOE: JCarroll/NVarela

CONT: TJohnstone/GSaavedra

RLA: CBrown

see attached e-mail

[Signature] date 5/16/96
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