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Washington, D C 20523

PANAMA

PROJECT PAPER

MUNICIPAL DEVELOPMENT

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PROJECT NUMBER 525-0324

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A

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7 ESTIMATED DATE OF OBLIGATION
(Under B below enter 1, 2, 3, or 4)
A. Initial FY 95 B. Quarter 4 C. Final FY 00

8 COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 95			LIFE OF PROJECT		
	B. FY	C. L/C	D. Total	E. FY	F. L/C	G. Total
AID Appropriated Total	1,356 0		1,356 0	2,500 0		2,500 0
(Grant)	(1,356.0)		(1,356 0)	(2,500 0)		(2,500 0)
(Loan)						
Other L.S.						
Host Country	167 0		167 0	835 0		835 0
Other Donors						
TOTALS	1,523 0		1,523 0	3,335 0		3,335 0

9 SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1 Grant	2 Loan	1 Grant	2 Loan	1 Grant	2 Loan	1 Grant	2 Loan
(1) DA	DIDE			-	-	1,044 0		1,925 0	
(2)	EVMU					312 0		575 0	
(3)									
(4)									
TOTALS						1,356.0		2,500 0	

10 SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11 SECONDARY PURPOSE CODE

12 SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code DEC
B. Amount 2,500 0

13 PROJECT PURPOSE (maximum 480 characters)

The purpose of the project is to enhance municipal capacity to generate and manage basic local revenues, improve basic services and actively include citizens in the local decision-making process

14 SCHEDULED EVALUATIONS

Interim MM YY 1 0 9 7 Final MM YY 1 0 9 9

15 SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify) CACM

16 AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP amendment.)

The Controller has reviewed and concurs with the methods of implementation and financing included herein.

Thomas J. Johnstone
Thomas J. Johnstone, Controller 8/4/95

17 APPROVED BY
Signature: *David E. Mutchler*
Title: David E. Mutchler, Mission Director
Date Signed: MM DD YY 8 4 95

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Municipal Development Project Paper
(525-0324)

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ABBREVIATIONS AND ACRONYMS

AECI	Spanish International Development Agency
AMUPA	Association of Panamanian Municipalities
CIDA	Canadian International Development Agency
CLASP	Caribbean and Latin American Scholarship Program
FEMICA	Federation of Central American Municipalities
FES	Emergency Social Fund
FSN	Foreign Service National
GOP	Government of Panama
ICMA	International City/County Management Association
IDB	International Development Bank
IPADEM	Panamanian Municipal Institute
JICA	Japanese International Cooperation Agency
LAC	Latin America and the Caribbean
LOGROS	Local Government Regional Outreach Strategy
MIPPE	Ministry of Planning and Economic Development
NGO	Non-governmental Organization
ODI	Office of Democratic Initiatives
PACD	Project Assistance Completion Date
PRD	Democratic Revolutionary Party
RHUDO	Regional Housing and Urban Development Office
SDA	Special Development Activities
SIECA	Secretariat for Central American Economic Integration
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

In 1994 a major change in Panama's political landscape took place with the direct election of mayors for virtually the first time in Panamanian history. Their term of office is five years. Although this is a very positive and necessary step towards the consolidation of democracy in Panama, the situation has produced a corps of mayors possessing little to no governing experience or political orientation. Additionally, municipalities suffer from a very weak tax base and spend the great majority of municipal funds on covering operating expenses with little to no funding available for capital investment.

Fortunately, it appears from focus groups of municipal officials, experts and non-governmental organizations (NGOs) which were recently carried out by the Mission, that there is considerable interest in improving municipal government on the part of mayors, citizens, and the newly elected party in power which controls a majority of the national Congress. There also is a nascent movement towards beginning a process of decentralization which would redefine authorities and relationships between the various levels of government. The project will take advantage of this convergence of interests.

To assist the municipalities and the Government of Panama (GOP) in strengthening municipal governments and in facilitating the decentralization process, USAID proposes to finance a five-year, \$2.5 million Municipal Development Project. The goal of this project is to develop efficient, responsive municipal governments. This will be seen in greater citizen satisfaction with municipal government performance in the delivery of basic services, stronger local ability and authority to manage revenues and respond to local needs, and the establishment of sustained working relationships with citizens, the NGO community and other local governments. The purpose of the project is to enhance municipal capacity to generate and manage local revenues, improve basic services and actively include citizens in the local decision-making process. Achievement of project purpose will be seen in an increase in targeted municipalities providing a broader range and improved services, increases in revenue and capital investment, and in greater participation by citizens in local decision making. Consistent with the Mission's strategic objectives, special attention will be given to project impact in the Panama Canal watershed and on capabilities of municipalities to support the reversion of the Canal to the Government of Panama in 1999. The project will incorporate a gender focus and perspective whenever possible in both project components and results anticipated.

Assistance will be provided through three components:

- (1) Training Component - Training will be provided to all municipal functionaries in law, financial planning and practices, municipal management and administration, and civic participation.
- (2) Model Municipalities/Technical Assistance Component - Intensive technical assistance will be provided to five model municipalities in order to assist them in developing and implementing efficient systems of management. These five will serve as models to other Panamanian municipalities, actively sharing experiences and successes, and
- (3) Legislative Reform Component - Technical assistance will be provided to the Association of Panamanian Municipalities (AMUPA) so that it is able to establish itself as a permanent agent of change and to strengthen its ability to develop and lobby for proposed legal reforms.

F

In addition to the three aforementioned components support will also be provided under the Municipal Development Project for project management commodities monitoring and evaluation and audits. The Municipal Development Project will be implemented through a buy-in to a Global Bureau contract with the International City/County Management Association (ICMA), with significant participation from the Panamanian Institute for Municipal Development (IPADEM a private organization). Furthermore an Agreement of Cooperation will be signed with AMUPA in order to fully implement the Legislative Reform Component.

By the end of the project key management, legal and policy reforms benefitting all municipalities will have been enacted and implemented, thus strengthening local decision-making authority and control over financial resources, as well as increasing citizen participation in the local decision-making process. Select model municipalities will have improved their capacity for promoting sustainable local development through increased autonomy and control of resources effective and efficient public service delivery and increased legitimacy in the eyes of their constituents.

At the end of the five year life of the project the following outputs will have been achieved in the model municipalities:

- Increased municipal revenues and improved management of financial resources
- Improved municipal delivery of basic local services
- Improved civic participation in municipal government decision-making processes
- Greater support for decentralization legislation which strengthens municipal autonomy and authority and increased municipal participation in the formulation of decentralization policy

The Municipal Development Task Force recommends approval of this Project Paper for a \$2.5 million, five-year grant to the Government of Panama and that this project be Authorized and a Project Agreement prepared to cover the life of the Project.

3

I *PROBLEM/OPPORTUNITY SETTING AND RATIONALE FOR PROJECT*

A *Background*

Panama is divided into 9 provinces, 67 municipalities (also referred to as districts) and 511 *corregimientos* (the smallest geo-political subdivision in the country). The country has a long history of highly centralized control, particularly since the 1946 Constitution placed heavy restrictions on municipal authority and administration. Such centralization is reflected in the laws governing local revenue generation and authority as well as in the weakness of civic participation within the culture, although a system of local participatory boards does exist. In Panama, municipalities have served more as an arm of the State rather than autonomous public entities with distinct attributes, functions and responsibilities. Due to this strong central authority, municipal authorities have traditionally had little job security and in part for that reason have lacked the incentive to establish good records systems, hire qualified personnel such as engineers, treasurers, and legal advisors, or to engage public participation.

Article VIII of the Constitution of 1972 and the Municipal Law of 1973 (Law No. 106) form the basis for the current municipal structure and introduced substantial changes to the municipal legal structure with a new view towards municipalities as promoters of social and economic development at the local level. Nonetheless, observers note inconsistencies within the law and in practice municipal authority has been severely limited.

Prior to the current Association of Panamanian Municipalities (AMUPA) created in August 1994, no organized effort existed which acted on behalf of municipal interests in liaison with the central government. Such an entity is needed particularly to encourage legal reforms in favor of municipalities and decentralization.

Special attention to gender issues is not given at present by local governments. Although women are represented within the municipal structure there is no deliberate strategy directed at taking women into account or improving gender participation.

The laws of Panama provide a limited list of activities such as local rents which the municipalities can use to generate revenue. While some of this authority is not well used, even in its best form it severely limits the ability of local authorities to respond to local priorities. The project will not be directly involved in legal reform but contemplates working with and assisting AMUPA in developing its capacity to develop and promote decentralization legislative initiatives.

1 Panama's Municipal Structure

Panama has a mayor-council form of local government. Prior to the passage of (electoral) Law No. 17 in 1993, mayors were appointed by the President; however, since the elections in 1994, both the municipal representatives and mayors are popularly elected for 5 year terms.

In addition, a structure of councils, boards and commissions exists which provides an opportunity for particular interests such as labor, schools, farmers, etc., to express their needs. This structure also serves as a forum for coordination with central government financial and service ministries to discuss local priorities. The functions, operation and relationships of these councils and boards are described below.

Juntas Locales

The *Junta Local* or Local Board is the most basic within the local government structure. These boards are made up of groups of local residents which represent a given neighborhood or small area or are sometimes comprised of local interest groups. The latter category might include individuals concerned with local labor, schools, or garbage collection. Each of the 511 geo-political districts or *corregimientos* of the country have several of these local boards whose members are elected from within each community. These boards can also organize commissions which seek to solve specific problems within the *corregimiento*.

Juntas Comunales

At the next level are *Juntas Comunales*, or Community Boards, which are convened in each of the 511 *corregimientos* in Panama. A representative, popularly elected from within the district (municipality), presides over the community board representing his/her respective *corregimiento*. Unlike members of the local boards, the 5 members of the community board for each *corregimiento* are selected by the representative to sit on the board with him/her. (The representative also sits on the municipal (district) council, which consists of at least 5 *corregimiento* representatives, as well as the provincial board (*Consejo Provincial*)). The community boards help to coordinate the local boards and discuss local needs and problems, which are passed along to the municipal council for action.

Consejo Municipal

There are 67 municipalities, or districts, in Panama, each of which has a *consejo municipal*, or municipal council, which includes the elected Representatives from the *corregimientos*. The popularly elected mayor also sits on the municipal council and can voice opinions and advice but does not have a vote. The mayor's primary responsibilities are the administration of the municipality, serving as official representative of the municipality, and local police matters. The municipal council obligates municipal funds for local projects, drawing on the needs expressed by the local boards and in consultation with the community boards.

Some discrepancy exists as to the specific responsibilities and authorities of the mayor as distinct from the municipal council, which were not defined in the 1994 electoral reform, which allowed for the popular election of mayors as well as municipal council members (i.e. *corregimiento* representatives). For example, although the mayor is responsible for municipal administration, the council has the power to name a number of municipal functionaries such as the municipal treasurer. Furthermore, the mayor is able to carry out certain judicial functions and, as the local authority over the police, acts as an agent of the central government.

Consejo Provincial

The *consejo provincial*, or provincial councils, serves to link the central government and the municipalities (districts) and *corregimientos*. Each of the 9 provinces of the country are overseen by a Governor who is named by the President. The provincial councils consist of *corregimiento* Representatives, legislators representing the various circuits within the province, mayors and council members from the municipalities within the province, representatives from the various central

government agencies operating within the province and the Governor. Only the *corregimiento* Representatives have votes. The provincial council discusses the needs of the province and tables requests from the municipalities for central government assistance. No decisions as to resource allocation are made at this level. Central government representatives take the matters raised for consideration to the national level where decisions are actually made.

2 Central/Local Legal Authority and Responsibility

As noted earlier, the Municipal Law of 1973 (Law 106) and its reform of 1984, Law No. 55) appears to provide municipalities with a wide range of authority. Nonetheless, the law also states that the central government will maintain a high level of control and that the municipalities are not in a position to receive devolved powers and responsibilities.

The Municipal Law assigns the municipal council a variety of functions and authorities including the formulation of local development plans, approval of the local budget, use and disposition of municipal properties, creation of public service enterprises, entering into contracts for the provision of local services, authorize the construction of plazas, parks and municipal roadways, and supporting national government actions and policies within the district. As noted in a 1994 study of the Panamanian municipal sector completed by the Panamanian Institute for Municipal Development (IPADEM), local development plans no longer exist and thus the municipal council cannot have a role in their development. Furthermore, the lack of financial capacity prevents the municipalities from being able to form local public/private enterprises and, in terms of contracts for the private provision of local services, this formality is, in practice, carried out between State entities and the private sector with no municipal involvement. Indeed, the central government is responsible for electricity, telephone systems, water and sewer systems, principle highways, storm drainage systems, and garbage collection in the largest municipalities, those of Panama City, Colon, and San Miguelito. To gain access to necessary central funds the municipalities must work through the central bureaucracy.

At the same time, as noted earlier, authority over local decisions as between the mayors and the councils is unclear and therefore inefficient. The layers of local government represented by the various councils and boards diffuse decision-making and weaken municipal autonomy.

Finally, a particularly difficult problem often mentioned by municipal authorities is the requirement that local policing and misdemeanor case resolution be the responsibility of the mayor (see Section (5) below for discussion on focus groups with municipal officials). They argue that this is much more efficiently and appropriately a central government function. It drains time and resources at the local level and requires management skills which the municipal authorities claim they do not possess.

Other provisions of the Municipal Law include Article 5 which allows municipalities to impugn national legislative or administrative acts if the municipalities consider them to be in violation of municipal autonomy. At the same time, Article 2 states that when the national government is involved partially or completely in a municipal public works project or in the establishment of a public service, the national executive branch has the authority to establish conditions for this involvement.

Similarly, Article 52 establishes the office of Municipal Treasurer. Article 56 allows the Treasurer to pay public employees and co-sign checks with the mayor for other municipal expenses. Article 58 establishes a municipal Auditor, however, for municipalities with budgets over \$500,000, Article 59 gives the Comptroller General the authority to name the Auditor. For smaller districts, Article 60 provides that the Comptroller General name an Accountant or Chief of Accounting instead of an

Auditor

Each municipal council is able to set its own rates for taxes and service fees though it must do so within the limits set forth in the Municipal Law (Law No 106). No specific Municipal Tax Law currently exists in Panama. While Law No 106 establishes categories of local revenue sources, these are not inclusive enough to permit municipalities to generate local revenues sufficient to meet local service delivery needs.

Revenues transferred from the central government make up a significant portion of total municipal revenues but there are no set criteria for transfers and allocation decisions are entirely in the hands of the Controller General who also has authority to veto planned local expenditures in advance ("*control previo*").

Article 243 of the Constitution establishes nine basic local sources of municipal revenue:

- 1 Returns from municipal property taxes and sales
- 2 Fees for use of municipal goods and services
- 3 Fees for public events
- 4 Taxes on the sale of alcoholic beverages
- 5 Fees for the extraction of sand, clay, coral, and different types of stone
- 6 Fines imposed by municipal authorities
- 7 National subsidies and donations
- 8 Fees for extraction of timber and exploitation of forests
- 9 Taxes for the slaughter of cattle and swine paid to the municipality from which the animal originates

Other sections of the law are more specific concerning sub-categories within these general divisions. Article 72 of Law 106 for example breaks out the fee bases in more detail and adds bonds and securities issued by the municipality as a source of revenue. Article 75 describes 48 types of business taxes and other licenses available to the municipality, including such businesses as hotels, barbershops, laundries, insurance companies, pawnshops, and pinball emporia, as well as licenses for dog tags and automobiles. However, as mentioned in the 1994 Secretariat of Central American Economic Integration (SIECA) study of local tax systems in the region, the major constraint faced by the municipal councils is that they are not permitted to levy a municipal tax on those things, objects or services which already are taxed at the national level (i.e. double taxation is not permitted) unless central government permission is granted.

3 Central/Local Revenue Sources

The financial picture of municipalities is rather bleak with half of all 67 Panamanian municipalities currently running deficits. Municipal income represents only 4.7% of national income and 80% of municipal revenues are used to pay for operating expenses (IPADEM 1995).

In 1992, 98.2% of municipal operating funds came from local taxes and fees. However, the tax base supporting local government is insufficient for total public service needs. Government of Panama (GOP) officials and other municipal experts interviewed by USAID/Panama during the project development process report that approximately 95% of all public services, including water, power, highways, health, and education, are paid for by the central government.

Panamanian law provides for very limited direct financial assistance to municipalities by the central government. Such assistance varies in practice as the law establishes no set criteria and simply states that the State can provide subsidies with the approval of the Ministry of the Treasury, when municipal revenues are not sufficient. In 1993, thirty-nine (39) municipalities received a total of \$606,000 under such authorization.

As a matter of policy, although not required by law, the central government through its Community Works Program provides \$10,000 each year to each of the *corregimientos* for public works projects. The Mission has been informed by the Comptroller General's office that such funding has not yet been committed for 1995.

Some central government financial support has been discussed for 1995, notably through the Emergency Social Fund (FES) which would provide 125 *corregimientos* with approximately \$1.5 million. The Ministry of the Interior has informally described a plan to provide direct assistance to 38 particularly poor towns with a proposed budget of \$15 million over five years. The objective would be to provide money to be used for local investment in natural resource exploitation and the provision of basic public services. The source of funding has yet to be determined though mention has been made of international assistance.

As a result of the legal structure and the sources of public service financing provided by the central government, funding decisions for services are made largely by the central government, albeit in consultation with local and central authorities through the councils at the municipal and provincial levels. The process required to request and obtain funding for specified needs, however, is complicated, time-consuming, and often non-productive.

The portrait is particularly bleak for municipalities outside the immediate area of the capital city. In 1992, over 50% of all monies collected in taxes and fees throughout the country were collected in the capital city area. In general, larger municipalities, where business activity tends to be concentrated, benefit from even the relatively limited tax base available to the municipalities, as the tax on commercial activities represents the principal source of municipal revenues. Small municipalities generally do not have a great variety or number of businesses or activities and, thus, do not benefit to any great extent from this tax base. The 1993 budget for Panama's 67 municipalities was approximately US \$54 million. Seventy percent of that amount was concentrated in the major cities of Panama City, San Miguelito, Colón, David, and La Chorrera.

The 1994 SIECA tax systems study, using information provided by the Panamanian Ministry of Planning and Economic Policy (MIPPE), compared the percentage of local taxes derived from different sources and found that in 1992 the largest share came from taxes on businesses and commercial activity (50.7%). Following this source of tax income was fees for vehicles (25.1%), taxes on the sale of alcoholic beverages (13.5%) and fees for construction or renovation (7%). No municipal property tax currently exists in Panama.

A 1986 study prepared by USAID's Office of Housing and Urban Development Program (now known as the Office of Environment and Urban Programs) found that throughout Panama only 60% of potential revenues was being collected. According to focus groups conducted by the Mission (see Section 5 below) this remains a good estimate, and indeed is even high in some cases.

This 1986 study commented that

"Municipalities currently collect no more than sixty percent of the indirect taxes available to

them mainly because they have failed to enact or update statutes defining the tax base and rates and because they have inadequate systems for identifying taxpayers and collecting taxes from them. Most municipalities also have considerable amounts of municipally-owned lands that are occupied by individuals who have built residences or commercial establishments but who have never obtained title and paid for the land. A few municipalities have initiated aggressive campaigns to identify and sell these occupied properties and have experienced twelve to fifteen percent increases in total revenues. User charges for services, mainly garbage collection, often cover only twenty percent of the costs of services, and many enterprise activities such as public markets operate at a loss (p 36)

4 Municipal Management

According to more recent discussions by the Mission with municipal authorities, the inability of the municipalities to plan and record revenue activities or revenue sources persists. Records are not accessible and rents are often not collected. Capital planning is impossible. In terms of other taxes and fees, untrained staff and inefficient information systems result in diminished capacity to evaluate and monitor resources or to plan efficiently.

The 1994 SIECA study noted that Law No. 106 requires municipalities to conduct a census every two years to evaluate the status of taxes and fees and to detect debt evasion. The study found that in practice this is often not done, either for political reasons, to avoid problems with the business community, or simply due to administrative failure.

The current law does provide for annual budgets (Article 121, Law No. 106) as well as medium- and long-term plans, developed locally and in coordination with national assistance programs. In practice the skill levels of those responsible is frequently insufficient.

An example of inefficient financial management is the high percentage of municipal budget spent on personnel and administration. As noted previously, 1995 studies show that 80% of municipal budgets are directed at such costs which shows a one-third increase over a figure of 60% reported in the 1986 USAID study.

The local autonomy provided for in the law is also hampered by the influence of central government involvement and the procedures required when seeking assistance from the central government. The central government collects all property taxes and defines commercial and other activities which comprise the indirect tax base. This severely limits local revenue potential. Borrowing is not a practical option either. Presidential Decree Number 173 of 1985 requires an elaborate process for obtaining loans. For relatively small loans, approval must come from the Ministry of Finance and Economic Development, MIPPE and the Controller General. For amounts over \$50,000 the approval of the entire cabinet is required.

An evaluation of a USAID loan program operated through a regional rural municipal development project found that the loans were repaid, although the activities financed were not successful. The cause of failure was lack of financial management capability. In addition, the central government did not provide its expected technical assistance to municipalities and there was no provision in the project to increase general municipal management capability.

The 1994 IPADEM evaluation also mentions the great number of problems which exist at the municipal level with respect to municipal administration and management procedures and practices.

Among them is noted lack of means of communication between municipalities, total lack of mechanisms of coordination for activities that take place at the municipal level, absence of procedures for evaluating available human resources inadequate channels of participation available to citizens of local civic groups lack of clarity as to level of authority for certain municipal departments, and confusion as to the proper mechanisms for issuing orders and mandates. Indeed, weaknesses in the structure and practices of municipalities and in their coordination with central government are rarely debated. This issue was not mentioned in the 1994 electoral debates for example and remains relegated to ad hoc responses. IPADEM concluded that there has been a deterioration in the public image of municipalities. The public does not regard them as either efficient, fair, or representative entities.

5 Elected Officials' Concerns USAID Diagnostic

In an effort to develop this project in a participatory and highly effective manner, the Mission conducted focus group discussions with mayors, other elected officials, and municipal staff from a wide range of municipalities throughout Panama (see Annex A for detailed list of focus groups). The vast majority of officials currently in office are newly elected and without prior municipal experience. Almost unanimously they expressed a need for training, seminars, workshops, and technical assistance to help them better understand laws and regulations relevant to the rights and responsibilities of local government. They indicated they had received some training from IPADEM but that much more is needed. Meetings with the national Association of Panamanian Municipalities (AMUPA) also confirmed the need for training.

In addition, even though their knowledge of Law No. 6 is limited, municipal officials perceive a need for some changes within the law. The most frequently mentioned complaints include that the law promotes excessive bureaucracy, that it does not provide for real autonomy for the municipalities, and that the larger municipalities are favored. The latter complaint relates more to the tax base defined in the law which emphasizes tertiary activities (commerce and services) versus primary and secondary activities (agriculture, mining, logging, etc.).

In addition to the training needs associated with Law No. 6, the mayors and *corregimiento* representatives feel that there is a general need to upgrade the skills and administrative capacity of all municipal personnel. Again, a great deal of the perceived need is the result of the recent elections, which brought new staff to the municipal governments which were also largely unfamiliar with sound municipal management. The vast majority of these officials are inexperienced administrators. Elected officials envision basic training for their administrative and professional staff as well as technical assistance. Areas of training most mentioned included setting up and maintaining an effective property registration system, an effective tax collection system, and waste management systems.

Inextricably related to this deficiency in skills and capacity at the municipal level is the inability of many of the municipalities, particularly the smaller rural ones, to maintain a professional staff of legal advisors, accountants, and engineers. The demand for these types of professional services varies from district to district and in most cases they are not required on a full-time basis. Currently, some of these services are provided on an ad hoc basis by larger municipalities in the area, and by the Ministries of the Interior, Public Works, Health, and others. The smaller rural municipalities are interested in a system for the sharing of technical support personnel if the associated costs are within their capabilities.

All of the municipalities with which the Mission met, both large and small expressed a need for

increased revenues to meet constituents demand for increased and improved services. The officials identified several obstacles to increasing their revenues. First and foremost is Law No 106 which they say is biased against the smaller rural municipalities in terms of revenue sources. Also mitigating against increased revenues are the administrative deficiencies of the municipalities themselves. They admit to difficulty in identifying and fully assessing and collecting existing revenues. Poorly trained officials and non-existing or ad hoc procedures and systems were frequently mentioned. Estimates of the perceived magnitude of potential increases in the collection of existing revenues if these restraints were adequately address range upward of 100%.

Inquiries as to how the municipalities would use the increased revenue produced a long list of items and activities. Priorities included

(a) Vehicles The need for mobility is of the highest priority especially in the rural areas. Four-wheel drive were the vehicles of choice given the state of the roads in the rural areas. Trucks and pick-ups are required to improve waste collection and disposal.

(b) Office equipment and furniture In the larger municipalities computers and modern accounting and financial management and budgeting systems were more frequently mentioned.

(c) Improvement in existing infrastructure The priority mentioned by almost all officials was slaughterhouses which in the rural areas are a principal revenue source and one of the major services provided. Public markets, cemeteries and municipal offices were also mentioned as priorities. All of the municipalities visited indicated that they lose money on the waste management services which they provide and that service coverage is insufficient.

In addition to the traditional services most municipalities now provide, there is a growing consensus that municipalities need to be involved in delivery of some services which are currently the responsibility of the central government. These services include improving rural roads, especially during the rainy season, increasing the availability and quality of potable water, improving health centers and developing nutrition programs in the schools. Unemployment and underemployment are major problems as well.

B Rationale and Strategy

Development experience has shown that strong local economies are essential to sustained national growth. Local economies in turn are affected by the ability of the local government to plan and manage its resources, which requires the participation of its citizens. Local governments offer the most immediate access to the public decision-making process. With sitting mayors representing the first corps of freely elected mayors in virtually all of Panamanian history, a great opportunity exists to assist Panama in strengthening the ability of local governments and citizens to formulate and execute plans for the use of local resources. As a component of greater ability to use resources efficiently is consideration of the best use of privatized services or some form of mixed private/public enterprise. This dynamic will be explored in the course of project activities.

Strong local economies also require sufficient authority to raise revenues and execute budgets in order to provide an adequate level of local public services. Panama is one of the most centralized governments in Latin America with respect to the ability of municipalities to collect and use revenue. The central government in Panama has been unable to meet increasing local demand for basic services. Indeed experience in other Latin American countries has shown that those services

provided by municipalities or other local entities have generally been more responsive to local needs than those which are provided by the national government. Sustainable democracies call for greater local capacity to raise revenues and thus provide more adequate local services. Therefore, the project will work in cooperation with the Association of Panamanian Municipalities (AMUPA) in order to assist in the development of and gain consensus on, strategies and laws which will devolve authority to municipalities and allow them greater flexibility in planning and in the collection and use of resources. Project activities focused on policy reform will complement USAID's policy agenda by providing analysis necessary for strengthening public debate and consensus-building, as well as providing the appropriate technical assistance necessary to implement reforms.

The rationale for the approach to be taken under this project rests on this basis and the weaknesses in the current municipal system as described earlier in this Project Paper. Thus in addition to the work contemplated at the national level in cooperation with AMUPA, the project will be comprised of two other components that will address the lack of technical capacity and experience on the part of both elected officials and municipal staff. One component will include intensive technical assistance to model municipalities focused on increasing citizen access to decision-making activities and improved municipal financial and administrative capacity. Due to the limited resources available for this project models will be developed within selected municipalities which can be replicated by other municipalities throughout the country. A training component will provide greatly needed basic tools for prudent municipal management and administration.

These three components—model municipalities, legal reform (through AMUPA), and training—are mutually reinforcing, dealing with policy reform and formulation, municipal strengthening, and local democratic development. Indeed, the legislative reform component will fortify and ensure the sustainability of the work completed under the other two components through strengthening of AMUPA as well as channel assistance toward legal and administrative reform at the national level. The three components together will bring about the changes necessary to improve delivery of municipal services. Strengthening democratic processes and increasing citizen participation will be at the foundation of all project activities.

Noting that good intentions are not enough, women's involvement and participation in municipal activities will need to be encouraged. Meaningful participation by women can contribute significantly toward achievement of the project's intended results, particularly as to increasing citizen access to decision-making activities and ensuring municipal resources are managed and used in such a way that citizen satisfaction is enhanced.

The Municipal Development Project takes advantage of the change in Panamanian law which provided for the direct election of mayors May 1994 and the installation of the elected municipal officials in September 1994. It carries forward the momentum of central government efforts to reform the criminal justice system, environmental protection, financial administration, and preparation for the reversion of Panama Canal properties and control over the Canal watershed in 1999.

USAID support of municipal development in Panama is the logical and necessary final component of the democratic strengthening program which is currently included in the Mission's portfolio. The design of the project addresses key problems which have been described in numerous studies completed in recent years, including studies carried out under USAID auspices; these documents describe the weaknesses in revenue management both at the local and national level as related to municipal service delivery.

Ultimately, the municipalities will be providing a variety of public services to their constituents on a

sustainable basis in a more direct, efficient manner than the central government, and will be able to respond much more rapidly and flexibly to local demands for services than could central government agencies. Project assistance will be used to mitigate the constraints described above through the development of more autonomous, accessible and responsible municipal governments.

C Relationship to Strategic Objective

The principal justification for the USAID/Panama program is to assist with the implementation of the Panama Canal Treaties of 1977. The Mission's 1996-1997 Action Plan focusses on environmental protection of the Panama canal watershed and assistance to the Government of Panama in the transfer of the Panama Canal and associated territories to Panamanian control.

Since 1990, USAID/Panama has concentrated on strengthening democratic institutions at the national level. USAID programs have focussed on the mass media, the justice sector, the National Assembly and the Electoral Tribunal, as well as improving financial management and accountability of the Controller General's office and government ministries. Progress has contributed to achievement of the Mission's Strategic Objective of Competent Civilian Government Institutions and of Greater Citizen Participation and attainment of the Agency and Latin America and Caribbean (LAC) Bureau goals of Building Democracy and Supporting the Evolution of Participatory Democratic Societies.

To ensure continued progress in the achievement of these goals, it is crucial to begin addressing the country's needs for democratic reform at the grass roots level. Effective local level governmental organizations which are responsive to the demands of their citizens and allow for their participation in decision making will complement and reinforce efforts to promote democracy at the national level. This in turn will help to ensure a stable political environment which is vital to the transfer and continued efficient operation of the Canal.

The project will focus most of its resources on municipalities within the watershed and those on with significant impact on though external to the watershed. All municipalities in the Republic of Panama however will benefit directly or indirectly from project activities.

D Relationship to Regional Municipal Development Program (LOGROS)

USAID's regional Local Government Regional Outreach Strategy (LOGROS) Project has been structured and active in municipal development in Central America since 1992. The Federación de Municipios del Istmo Centroamericano (FEMICA) is their principal counterpart through a Cooperative Agreement. Among the LOGROS mandates are to complement the bilateral Missions in their municipal development activities to make the most efficient use of regional and bi-lateral funds. LOGROS seeks to implement together with the bilateral Mission problem solving exercises as pilot, demonstration projects that can have a regional impact, as well as to respond to requests for specific, specialized support. To date in Panama LOGROS has either financed or provided technical assistance for several activities that have contributed to preparing the way for the Mission's municipal development project, including through support of a regional conference of mayors, a comparative study of municipal taxing authority in Central America, and specific technical assistance to David and Santiago related to waste management.

LOGROS has resources to serve on request as a useful backstop function to Panama for many Project activities, especially in the areas of the identification of Central American consultants, technical

assistance in the design and planning of specific activities and strategies in the areas of training institutional development legislative reform the development of consensus and horizontal cooperation from other Central American municipalities and Associations

LOGROS supports directly and through FEMICA and other donors regional training and consensus mobilizing activities that are available to Panamanian municipal officials In addition FEMICA with LOGROS financing and cooperation is setting up a center for coordinating regional training opportunities and resources whose services will be available to Panama's municipal sector The Municipal Development project will use LOGROS as a valuable complement to in-country project activities

E Other Donor Activities

Other potential donors for collaboration in this development activity include the United Nations Development Programme World Bank International Development Bank (IDB), Japanese Agency for International Cooperation (JICA) Canadian International Development Agency (CIDA) and the Spanish international assistance agency Agencia Española de Cooperación Internacional (AECI) Contact is maintained with those organizations that have local representatives in Panama Both the IDB and World Bank are considering infrastructure projects that could have an impact on project activities, and the Mission is coordinating with them

Actual support to Panama at the moment is small The Konrad Adenauer Foundation provides some modest support to defray administrative costs of a local NGO The Spanish AECI has a regional program which includes Panama notably under a pilot program in La Chorrera where the AECI is assisting in addressing the urban waste problem

USAID provides support at a regional level through assistance to FEMICA Central to their work is ongoing assistance to and work with the different national municipality associations FEMICA also sponsors conferences and workshops at the regional and national level on the range of municipal development issues It brings together legislators mayors, municipal authorities and senior government officials FEMICA in addition produces a monthly bulletin of activities both in Latin America and elsewhere related to municipal development

The largest prospective donor is the IDB, although it has indicated no current plans for a municipal development component within the \$750 million loan package they have announced for Panama The project will urge at every opportunity that the IDB include in its assistance significant amounts of support to the model municipalities so that resources needed to implement activities under the improved systems can begin contemporaneously with project assisted development USAID/Panama will take all possible steps to establish a formal agreement with the IDB to parallel finance municipal development activities

II PROJECT PURPOSE AND ASSISTANCE INTERVENTIONS

A Project Goal and Purpose

The *goal* of this project is to support the development of efficient, responsive municipal governments This will be seen in stronger local ability and authority to manage revenues and the establishment of sustained working relationships with citizens the NGO community and other local governments

which will contribute to a greater responsiveness to local needs. This in turn will contribute to greater citizen satisfaction with municipal government performance in the delivery of basic services.

The *purpose* of the project is to enhance municipal capacity to generate and manage basic local revenues, improve basic services and actively include citizens in the local decision-making process. Achievement of the project purpose will be seen through a 90 percent increase in revenues for the model municipalities, an increase by 20 percent in the amount of those model municipality revenues dedicated to capital investment, and an increase by 20 percent in the revenues dedicated to public services in the model municipalities. In addition, citizen (i.e. customer) satisfaction with the delivery of services in the model municipalities will have increased by at least 20 percent and there will have been an increase by at least 20 percent in the number of citizens actively participating in model municipality decision-making.

In addition to direct training in these areas, the project will support the activities of the national Association of Municipalities of Panama (AMUPA). AMUPA will serve as the sustained force behind continued efficient governance and legal reform. The project will support AMUPA's drafting of enabling legislation to permit devolution of taxing and revenue management authority to local governments to increase financial autonomy.

By improving the capability of municipal governments in Panama to assume a greater role in decision-making at the local level and to manage their assets, the project will contribute to improving mechanisms and opportunities for increased civic participation in Panama's democratic system and improved public sector financial and social program management and accountability.

B Project Components

1 Areas of focus for project components

The project has three components: training, technical assistance to model municipalities, and legislative reform, as detailed below. All of the components will respond to three general areas of focus:

o Municipal Management Administration Skills/Constituent Involvement

Training and technical assistance provided to all municipal officials on a regional basis will focus on improved management systems, including financial management, public/private sector cooperation, and ways to increase civic participation.

o Improvement of municipal-based services

Technical assistance to selected model municipalities will enable them to serve as pilots in the standardization of decentralized services. This will include implementation of standard methods for tax assessment, standard accounting manuals and inventory control procedures, standards which municipalities can use for maintenance and/or procurement of infrastructure, and the best use of privatized service delivery mixed private/public sector enterprises. The selection of the model municipalities will be completed in consultation with relevant Government of Panama and NGO entities and reflect the criteria described in this Project Paper (see p. 15).

o *Legal Reforms*

Strengthening AMUPA will help achieve the eventual promulgation of changes in key laws governing municipal authority and operation. The purpose of the legal reforms will be to eliminate current legal obstacles to efficient municipal governance including the restricted types of revenue sources, procedures for obtaining central bank loans, and authority over allocation of central government funds.

2 Training Component

a *Objective*

The objective of this component will be to train elected officials and appropriate professional staff at all municipal levels of Panama in the various skill areas needed for efficient municipal and local government management. Gender representation will be encouraged in this component whenever possible. Topics will include:

1) *Legal Framework*

- Laws related to the purpose and structure of municipalities
- Authorized municipal commercial activities
- Relationships with the central government
- Analysis of strengths and weaknesses of existing legislation and possible changes aimed at modernizing public administration

2) *Fiscal and Financial Management Systems and Practices*

- Inventory of tax base, updating of tax rates and developing effective tax collection systems
- Establishing and maintaining effective property registration systems
- Developing effective waste management systems
- Improved financial management systems and procedures for municipal commercial enterprises

3) *Municipal Administration*

- Contracting and procurement systems
- Systems for procurement and sharing of technical support staff
- Civic Participation

b *Inputs*

Legal Framework

The four topics in this skill area will require two days of instruction each. All 67 mayors, 511 *corregimiento* representatives and fifty additional municipal employees including legal advisors and others with a special need to understand the municipal law will participate, for a total of approximately 650 persons. Using an average class size of 36 this will require 18 two-day sessions.

to provide training throughout the 9 provinces. With two instructors per session, 72 person-days have been budgeted to cover the legal instruction.

Fiscal and Financial Management Systems and Practices

Days of instruction required for each topic vary as follows: tax base, tax rates and tax collection (6 days); property registration systems (1 day); waste management systems (1 day); and financial management systems (1 day). Training in this skill area will be provided to all mayors, representatives and *consejales* (council members) as well as key financial officers and other municipal functionaries working with financial matters, for a total of 750. With approximately 42 participants in each training session and two instructors per session, the project has budgeted 360 person-days of instruction in this skill area.

Municipal Administration

Municipal administration training in contracting and procurement and sharing of technical staff among very small municipalities will require two days of instruction for each topic using two instructors per session. All mayors and key administrative staff will participate for a total of 200 persons, or approximately 25 per province. Seventy-two (72) person days of instruction have been budgeted.

Under civic participation, one day of training will be required. Fifty participants from community groups, including women's organizations if possible, to be identified in the early phase of the project will be invited from each of the nine provinces for a total of 450 participants. The sessions will require only one instructor. The project has budgeted 100-person days for this topic, for a total of 172 person-days of instruction for the category of municipal administration.

Activities under the training component will also include:

- 1) Approximately 40 exchange visits (over the life of the project) of municipal officials from within Panama to lecture or in other formats impart skills learned or approaches which have been successful for them,
- 2) Publication and distribution of manuals and guides in each of the skill areas (or each topic depending on level of specificity and expanse of topic). With 511 *corregimientos* and estimated average staff of ten in each, with additional large staffs to cover in major cities, the project estimates distributing approximately 1,500 manuals/guides per year which cover priority skill areas.

As additional inputs in the training and the technical assistance components (to be provided to model municipalities), and whenever possible, the project will take advantage of sitting mayors and their staff as trainers and advisors. Lecturers will also include professionals from the Panamanian public and private sectors as much as possible, and in particular professionals associated with IPADEM, with substantial participation from non-Panamanians as well.

The mayors of Panama City (the country's largest municipality) and Colon (the second largest city) will participate to the extent their schedules permit. The Mayor of Panama City commands sizeable technical resources including a staff of approximately 140 persons. The Mayor of Colon also serves as the President of AMUPA and has offered his assistance and involvement in training activities.

As is true for all components of the project, the International City/County Management Association

(ICMA) through a Mission buy-in to a Global Bureau contract will be responsible for implementation of the training component. This component will be implemented by three full-time advisors, each of whom will be a highly skilled professional in one of the following areas: municipal finance, public services and municipal/public administration. These professionals will be responsible for training activities and technical assistance to model municipalities within their particular skill area. Additionally, the project contemplates a three-quarter (75%) time ICMA project coordinator who will ensure implementation and coordination of the training and the technical assistance components and who will serve also as chief liaison to AMUPA. As noted earlier, the majority of training sessions will require two instructors. The work of the second instructor for each session will be completed by consultants contracted on an as-needed basis by ICMA or by local officials as appropriate. In the case of the legal training, instructors should be Panamanian lawyers or legal professionals.

3 Model Municipalities/Technical Assistance Component

a Objective

The objective of this component is to improve the delivery of public services in selected model municipalities. As described in the New Activities Description and consistent with USAID/W guidance, direct project assistance will be focused outside the major municipalities of Panama City and Colon. Sustained technical assistance will be aimed at increased citizen access to decision-making activities, with attention given to access by women and women's groups, and improved financial and administrative capacity of the municipalities.

b Selection Criteria/Process

After extensive interviews and a review of the literature available, with additional input from Mission and Panamanian economists and other experts, the decision was made to select model municipalities using five criteria:

- o The Mission focus on the Panama Canal watershed and other geographic areas which have an impact on the watershed
- o Population density
- o Accessibility,
- o Receptivity to new approaches and responsibilities, and
- o Poverty level

The first criteria was selected on the basis of the strategic objectives of the Mission which are focussed on protection of the Canal watershed and on supporting the process of reverting Canal lands and buildings to the Government of Panama. In addition, there are areas outside the watershed which have an impact in the watershed by virtue of out-migration of people from those areas to the watershed, largely to find work. Strengthening the municipal structure in their home districts will provide a stronger economic base and improve available services and should discourage out-migration.

The project will also have a stronger impact if it can reach municipalities with a population density

greater than 20 (scale 100) Improvements in these municipalities will have an immediate impact on greater numbers of people but also will represent changes which both dense and relatively less dense districts will be able to emulate

The objectives of the project also require that the model municipalities be accessible to other municipalities in the area in order to facilitate the replication of systems developed and improvements made As will be explained later in this section agreements will be reached with municipalities confirming their commitment to exchange information and allow personnel from other municipalities to visit for the purpose of sharing skills and experience A further consideration under the accessibility criteria was the limitations on the number of technical advisors which the budget will support and the time and distance which will be required to provide regular technical assistance to the model municipalities

The project will give preference to those municipalities which express a willingness and eagerness to implement new approaches and methods Evidence of such will can be seen in attempts on the part of the municipality to improve existing systems and receptivity to innovative methods The project agreements signed by each municipality and USAID will define each party's responsibilities and confirm the municipality's commitment to implement change

Finally in order to support the Agency priority of reducing poverty the poverty criterion was applied The MIPPE poverty index includes measures of housing education and health and demonstrates a significant socio economic disadvantage Final selection of municipalities will be carried out with input from AMUPA IPADEM and central government offices and will incorporate USAID staff professional knowledge and experience

All five criteria interrelate and are mutually reinforcing as to Agency goals and Mission strategic objectives In sum, model municipalities will be selected based on (1) proximity to the Canal watershed or those which show significant out-migration to the watershed area, (2) population density size and growth forecasts (3) proximity to and relationships with other municipalities and accessibility for project staff (4) receptivity and commitment to implementing new methods, and (5) poverty

c Inputs

Specific activities under this component, which will be carried out via the Mission buy-in to the Global Bureau contract with ICMA will include

- a) Intensive and regular presence in the town by technical experts who will be secured by ICMA in order to oversee implementation of improved systems address problems as they arise and provide any additional training as required,
- b) Development publication, and distribution of documents, including manuals and guides with respect to the different elements of the assistance provided including among others financial planning, community participation and public/private sector cooperation Any additional manuals developed under this component will complement or add to, and not duplicate those produced under the training component, and
- c) A quarterly bulletin, beginning in the third quarter of the first year of project implementation, which will be distributed to all municipalities and relevant central government offices describing the activities and results of the work in the model municipalities

Additionally the Mission will promulgate an Agreement of Cooperation among all Panamanian municipalities preferably under the auspices of AMUPA providing that all municipalities will exchange information and allow personnel from other municipalities to visit for the purpose of sharing skills and experience. If not practical to have this agreement cover all municipalities every effort will be made to establish that personnel at least from the model municipalities will be allowed to travel to other towns which are not part of this project component in order to share what has been learned. The project anticipates sponsoring approximately forty such exchange visits per year.

This component will consist of an initial phase of three months, during which the technical experts will reside in the municipalities to undertake diagnostics, define strengths, weaknesses, and design strategies for development. They will focus on financial administration (planning, budgeting and accounting) rate-setting and financial record keeping, administration of public services (concessions, garbage collection public markets etc.), operation of Panama's municipal laws, and citizen participation in public administration as contemplated in the Municipal Law (Law No. 106) through referenda, plebiscites and other mechanisms. ICMA will present USAID/Panama with a complete assessment report that includes the results of the diagnostics concluded in the five model municipalities and which will present baseline data related to project targets and indicators.

Agreements will be signed by USAID with each model municipality that define the assistance to be provided, the specifics of the work to be done by both parties, and the results which the municipalities anticipate. A specific time-table of activities in each model municipality will also be established.

As noted previously, three full-time advisors contracted by ICMA will be responsible for covering the work to be done in the model municipalities as well as the training component. The ICMA coordinator will be charged with oversight of project implementation, coordinating all project reports, working closely with the USAID project manager, and taking the lead on national level project activities. In all cases, project technical personnel will be contracted by ICMA through the Mission buy-in.

4 Legislative Reform Component

a Objective Promotion by AMUPA of legislative reforms

The project will support the Association of Panamanian Municipalities (AMUPA) in its efforts to promote legal reform aimed at increasing both the control exercised by municipalities over shared revenues and the authority of the municipalities to generate greater revenues locally. AMUPA will take the lead on defining specific reforms which the Association, as the representative of the municipalities, feels are needed, and on communicating throughout any reform effort with the executive and legislative branches. Reforms which the municipal authorities have previously mentioned as priorities included an increase in the number of activities which they control at the local level such as health and education facilities and a reduction in the complexity of stages required to secure central bank loans for capital improvement. AMUPA will be urged to consult women's established or ad hoc advisory commissions and women officials in the municipal bureaucracy to gain a gender perspective in the design of its legislative proposals.

b Inputs

ICMA contract personnel, led by the ICMA project coordinator and supplemented by contracted experts as needed, will provide technical assistance to the Association in the drafting of legislation.

and may also help to facilitate the comparison of similar efforts in other countries. For example, the national municipal association in Nicaragua, AMUNIC, is also a newly structured municipal association working to affect national policy reform. Communication and sharing of information with that association and others in the region may provide useful. AMUPA will enter into an "Agreement of Cooperation" with USAID defining the responsibilities of each party.

If needed, ICMA will provide specialized technical assistance on municipalities and gender involvement in the development of the reforms to the legal framework.

c Role of the Association of Panamanian Municipalities (AMUPA)

Project assistance in connection with AMUPA during the first year will include

- 1) Meetings with AMUPA to define their agenda and the development of a diagnostic of possible legislative reform and changes in laws and regulations,
- 2) A General Assembly for AMUPA in order to consolidate its membership and clarify its program agenda, and
- 3) Quarterly meetings with AMUPA leadership and interested parties, including legislators, executive branch, private business sector, and community leaders.

In the second year, assistance to AMUPA will be directed at

- 4) A detailed agenda of reforms and improvements internal to AMUPA,
- 5) Completed proposals for legislative reforms presented to the executive and legislative branches,
- 6) Active involvement by AMUPA throughout the country, not only within the ambit of AMUPA members, and
- 7) A clear involvement and sustained commitment by the municipalities in AMUPA.

III PLAN OF ACTION

The Municipal Development Project is a \$2.5 million, five-year project that will be implemented by one principal U.S. institution in cooperation with two Panamanian institutions, with USAID project management supervision. Project components will begin and will be carried out simultaneously, as the three distinct components are complementary and mutually reinforcing.

A Institutional Contractor Buy-in to USAID/Washington (Global Bureau) Contract

As noted previously, all project technical support will be provided under a Buy-In to a Global Bureau contract with the International City/County Management Association (ICMA). ICMA was awarded this contract via an open, competitive process; the contract and its buy-ins are managed through the Office of Environment and Urban Programs in the Global Bureau at USAID/Washington. ICMA is an association of professional city managers in the U.S. and thus is particularly well suited to undertake the Municipal Development Project in Panama, working with municipal professionals and elected officials.

Specific tasks under the buy-in will be conducted under Delivery Orders, and will include all training, technical assistance, document and publication development and production, studies and monitoring.

activities undertaken in the project. Delivery orders will direct substantial involvement by ICMA with AMUPA not only in terms of direct technical assistance to the Association but also assuring synergy between AMUPA's activities at the national level with technical assistance and training being provided to the municipalities. Working through an buy-in to the Global Bureau's contract with ICMA provides a simple, cost-effective and efficient way in which to contract qualified and experienced technical expertise and also ensures the coordination and synergy necessary between the various project components at the national and local levels. The ICMA project coordinator will oversee and coordinate activities undertaken by the contractor and IPADEM under the project and will have principle responsibility for the national effort working with AMUPA as well as relevant Government of Panama (GOP) offices. S/he will also explore the possibility, as appropriate and relevant, of developing twinning and/or sister city relationships with model municipalities and U.S. cities and will help to facilitate these relationships.

Whenever possible and relevant to a particular activity, ICMA will sub-contract with the Panamanian Institute for Municipal Development (IPADEM) which is the single NGO in Panama with experience and expertise related to municipal management and development. IPADEM will implement some of the training and technical assistance called for under the project, as determined in coordination with ICMA and through discussions with the municipalities, AMUPA, and citizen groups to be identified. In all cases, ICMA will work closely and coordinate with IPADEM in order to prepare them to gradually take on project implementation responsibilities. USAID/Panama will work intensely with IPADEM officials during Year One of the project in order to receive the USAID certification required for the Institute to be a grantee. It is anticipated that at the end of the project's second year, IPADEM will be in a position to fully take on project technical assistance and training activities, with possible continued support from ICMA.

B Government of Panama (GOP) Counterpart Institutions

The chief Government of Panama counterpart will be the Ministry of Planning and Economic Policy (MIPPE), through its Municipal Development Section, Department of Planning and Regional Development which houses the Office of Municipal Coordination and Advisory Services. MIPPE's assistance to local government has concentrated on assistance at the provincial council level in the development of provincial budgets, which include allocations to specific municipalities. As noted earlier, all funding and allocations are decided at the central government level though the provincial council can make recommendations based on input from municipalities. MIPPE also has as its charge technical assistance to municipalities in the planning and design of self-financed investment projects.

Discussions held with MIPPE representatives as part of the project design phase demonstrated the Ministry's eagerness to work towards municipal development and increased autonomy. Officials stated that the central government recognizes the need to decentralize authorities to the local level and that there exists a great and urgent need for training and technical assistance across municipalities and in a variety of areas.

The Office of Municipal Coordination and Advisory Services in MIPPE was established to provide technical assistance to municipalities related to financial and general strategic planning. The project will provide technical assistance to this office to strengthen their role as a sustained resource and both MIPPE and the Ministry of Government and Justice (MGJ) will be included in training activities as well as coordination meetings which take place under the project.

The project will also coordinate with the Ministry of Government and Justice (MGJ) through its

National Directorate of Local Governments The MGJ provides funding to poorer municipalities and conducts surveys of the structure of selected municipalities on an occasional basis The project will work through their office to ensure the most beneficial use of project funds and the coordination of GOP priorities as to poorer municipalities

In addition the Office of Municipal Liaison in the Office of the Controller General will be included in planning the project and in training sessions conducted under the project in order to coordinate and strengthen the assistance which this office is intended to provide related to municipal budget preparation and execution

C *Panamanian Municipal Development Institute (IPADEM)*

The Panamanian Institute for Municipal Development (IPADEM) is a non-partisan non-governmental organization (NGO) which works to promote participatory democracy, equality, social justice, political stability and civic education The Institute focuses on strengthening local governments so as to improve the quality of life in the various communities of Panama The organization works with mayors representatives municipal functionaries central government officials and international donor organizations

In the absence of a municipal association (prior to 1994) IPADEM has worked closely with the regional municipal association FEMICA and indeed was instrumental in the creation of the new Panamanian association AMUPA Currently the Institute is working to promote a decentralization agenda and has gained some support for the creation of a National Commission on Decentralization which would help to define the process

Wherever appropriate, the project will take advantage of the expertise IPADEM has developed and in the process strengthen IPADEM as an NGO working in support of municipalities In the project design process an evaluation was made by the Mission of possible local expertise in the NGO community Prospects for sustainable local expertise current expertise and administrative capacity and cost were considered together with the goals of developing NGOs whenever possible in concert with substantive project work In all categories IPADEM was the best choice The Institute has well-established experience in Panama, a good reputation in the field of municipal development in the country as expressed by the regional municipal association, FEMICA and numerous municipal leaders in Panama, among others

IPADEM, in cooperation with ICMA, will use its staff and extensive network of experts to field instructors and technical assistance support for all three components of the project IPADEM has the added advantage of having been centrally involved with the formation of AMUPA, as well as participating in FEMICA activities and formal and informal conversations with all levels of the municipal and central government in Panama It has a proven track record through their work with AMUPA and LOGROS activities Their access to counterparts will be critical

As noted earlier ICMA will work closely and coordinate with IPADEM in order to prepare the Institute to take on project implementation responsibilities with ICMA playing more of a support role, as necessary At the end of the second year a formal USAID funded grant or cooperative agreement will be entered into with the Institute whereby it takes on responsibilities previously assigned to ICMA The precise timing of the transfer of responsibilities will be as gradual as necessary depending upon IPADEM's readiness and USAID/Panama's ability to secure USAID certification for the Institute The exact timing of this process will be determined in coordination with representatives of USAID,

ICMA AMUPA and relevant GOP officials via regular coordination meetings to be held throughout the life of the project (see Section E below) The flexibility provided through the ICMA buy-in which operates through Delivery Orders allows for such versatility in project design and implementation

D Association of Panamanian Municipalities (AMUPA)

Prior to 1994 no national association of municipalities existed in Panama There did exist an Association of Mayors However, as the mayors were not elected officials but rather appointed by the President it operated more as an association of central government functionaries and not an organization which represented local interests and concerns With the first direct election of mayors in 1994 there was great interest expressed in forming an association that represented municipalities In August 1994 all of the newly elected mayors gathered in Panama City along with representatives from IPADEM FEMICA and other national municipal associations from throughout the region After discussions and input from their colleagues the Panamanian mayors voted to form AMUPA and chose the association's board of directors which includes representation from all 9 provinces

As AMUPA develops institutional strength it will become the collective voice of the municipalities its political weight assured by the membership of elected officials AMUPA can help sustain municipal development and help promulgate municipal laws It is the only non-governmental entity in Panama which is comprised of locally elected officials Experience throughout the region with municipal development has shown that such associations are the most effective vehicles for presentation of municipal needs to central government authorities and for developing the capacities of their members

AMUPA is currently working to establish itself as a strong and representative association with continued assistance from FEMICA and other Central American national municipal associations The association is in the early phase of writing by-laws and organizing itself administratively During the first year the project will sign an Agreement with AMUPA setting out goals anticipated results, and measurements

E Coordination Meetings

The USAID project manager and the ICMA project coordinator will hold bi-weekly or monthly meetings (depending upon the needs of the project) with IPADEM and counterpart organizations to discuss design adjustments and implementation concerns The meetings will include representatives from MIPPE and the Ministry of Government and Justice (MGJ) As appropriate, invitations will be extended to the Controller General AMUPA and other interested parties

The MGJ is developing its own plan for activities seminars and other support to municipalities The project will coordinate with these efforts principally through the regular project coordination meetings Likewise any activities scheduled by MIPPE or other GOP agencies can be raised and coordinated at these meetings Significant decisions regarding changes in the project plans and other donor coordination will be discussed with counterpart organizations to ensure support

The selected model municipalities will be the Mission counterparts for technical assistance at the local level As noted previously, agreements will be signed by USAID with each model municipality USAID will make very effort to ensure that the municipality in this agreement is represented by community representatives as well as elected officials

F Implementation Schedule

Project technical assistance, training and support of legal reform will take place in years 1-3 with some follow-on work taking place in year four. Only final evaluations and audits (as necessary) and occasional reinforcing technical assistance will take place in year five. The project is designed in this way so as to address the very immediate need for assistance on the part of new municipal officials. The project will have the greatest impact if intervention is made quickly and new municipal systems are put in place, thus contributing to the sustainability of project impact as the mayors and municipal officials will have sufficient opportunity to institutionalize the systems during their tenure.

Year One

A USAID project manager (FSN) will be hired. The ICMA activities will be funded through delivery orders. A work plan for training and for technical assistance will be prepared by ICMA and approved within three months. Baseline data for the project indicators will be also be collected and presented by the end of the third month after arrival in Panama of ICMA contract personnel. Targets for end-of-project status will be defined. Work on specific diagnostics of possible legislative reform and of model municipalities' needs will begin in month four and will be concluded by the end of the seventh month after arrival of the ICMA personnel. Workplans will be developed for each model municipality. Training will begin by the end of the year, with community groups to receive training identified and agreements on work plans for all model municipalities will be completed. A proposed schedule of activities related to legislative reform will be completed by the end of the year. During this first year, the project will receive support from the USAID regional Local Government Regional Outreach Strategy (LOGROS) project in the form of regional evaluations contemplated by LOGROS and in direct review and comment by experienced LOGROS personnel.

Year Two

Technical assistance will be on-going according to the individual workplans developed with each model municipality. Arrangements for training to be conducted outside the capital city during year two will be completed by month three. Technical assistance to AMUPA will increase as AMUPA completes anticipated formalization of its structure and operation. Drafting of proposed legislation will be completed by month six, involving in part a national conference of AMUPA and drafting workshops as needed. The first annual evaluation of progress in the first group of model municipalities will be completed at the end of the year. Training will be completed for one-third of appropriate professional municipal officials by the end of the year. It is anticipated that USAID will have received certification for IPADEM and that the Institute will begin to take on more project implementation responsibility with full responsibility transferred by Year 3.

Year Three

Training for the second third of municipal professionals will be completed by the end of the year. Revision of draft legislation will be ongoing as required. An evaluation of technical assistance impact in the second half of the model municipalities will be completed by the end of the year. A mid-term project evaluation will be completed which will include, among other standard components, data related to project targets and indicators.

Year Four Training will be completed for all remaining appropriate municipal professionals. Follow on training will be initiated in the capital city and outside as warranted according to the mid-term evaluation and will be finished by the end of the year. Work will conclude in the model municipalities with project staff helping the municipalities to develop a five-year strategic plan. The second evaluation of the model municipalities will be completed by the end of the year.

Year Five Final audits and a final evaluation will be conducted. Occasional technical assistance will be provided based on identified need and budget.

IV DEFINITION OF SUCCESS

A Intended Results

At the end of this five-year project, the Project Goal will have contributed to the achievement of the following conditions:

- 1) Empowerment of municipalities to be more responsive to local needs
- 2) Citizen satisfaction with municipal services

The Project Purpose will have been attained through achievement of:

- 1) Municipalities providing a broader range of and significantly improved basic services,
- 2) Decentralization legislation in place or enacted,
- 3) More citizens actively participating in local decision-making processes

Outputs of the project include:

- 1) Increased municipal revenues and improved management of financial resources,
- 2) Improved municipal delivery of basic local services
- 3) Improved civic participation in municipal government decision-making processes,
- 4) Greater support for decentralization legislation which strengthens municipal autonomy and authority and increased municipal participation in the formulation of decentralization policy

To measure progress toward those ends the project will monitor the establishment of model systems for revenue collection, accounting and financial control and investment planning, new procedures developed to expand cooperative work with the private sector and among municipalities, the integration of citizens, local NGOs and organized community action groups into the local government decision making processes through increase participation in existing fora and the establishment of new mechanisms and the devolution of operating authorities and financial resources to municipalities. Base line data will be developed under the contract with ICMA.

It will not be necessary for each of the areas of growth to improve to the same degree in order for the project to advance. For example it may be that the municipalities will improve their revenue performance and maintain that performance for some months or years before users become confident and their satisfaction increases to a measurable degree. Indeed, legislative reform may take several years. On the other hand, a strong effort by AMUPA with the support of the Executive and his party could drive changes in the law within a year's time. USAID conversations with MIPPE officials as

part of the project design processes suggested that there is growing openness within the central government to begin discussions on specific mechanisms and changes to bring about decentralization. But even under existing law, the project goals will be advanced with the improvements in how the municipalities plan and manage available resources. Among those interviewed in preparation of this Project Paper, and in the literature reviewed, there is widespread agreement that some changes in the law would improve the ability of the municipalities to generate more revenue, to reduce some of their current responsibilities, notably their local police functions, and their ability to control more directly decisions as to how to spend central government revenues.

Somewhat more predictable is the establishment of improved financial, personnel, and other management systems. The project anticipates that changes in existing systems can be made within the first to second year of implementation, with fully reformed municipal offices operating under the new systems in three to four years.

Greater citizen participation will be a slower process of changing the historical approaches and attitudes of citizens toward their role in local decision-making, establishing more mechanisms to allow greater access to municipal government and decision-making processes, and educating new municipal leaders as to approaches they can use to establish greater consensus and gather more support. This process is expected to require two to five years to manifest in a measurable way and will vary considerably based on the performance of the municipalities and support at the national level.

B Incorporating Monitoring and Evaluation Results into Project Activities

With each of the components, the project will make adjustments as to priorities and continued levels of assistance based on performance and proven commitment. The coordination meetings will take place regularly throughout the life of the project with all the various sectors participating in the project to consider progress made and propose suggestions as to needed changes or re-direction. Furthermore, the project contractor will be expected to submit quarterly reports which will serve to monitor progress and suggest possible changes in project components or means of implementation. Summaries of these reports will be presented at the project coordination meetings for review and comment.

V ANALYSIS OF FEASIBILITY, KEY ASSUMPTIONS AND RELATED RISKS

Legislative Reform Component With a central government administration inaugurated in September 1994, and the newly elected mayors still getting oriented, the impetus to initiate changes at the local and national level is still developing. Based on the active participation in AMUPA by most of the mayors it appears that they do have a genuine interest in strengthening both their skills and their authority.

At the national level public statements by the president and comments made by members of the legislative assembly in various fora suggest that there will be a willingness to devolve control as well as legal authority to some extent. This may be directed more at strengthening the position of the majority party which makes up also the largest share of mayors, or primarily as a non-partisan effort to strengthen the economic and social infrastructure of the country. Either way, the early signs auger well for this component of the project and make careful USAID intervention through AMUPA a critical contribution.

The future of AMUPA itself is uncertain. However, the current association leadership is dynamic and appears to enjoy broad non-partisan support. AMUPA has been meeting regularly to establish its by-laws and complete its internal organization. The mayors of Colón, Chitré, Santiago, and Las Tablas among the larger towns, have shown themselves to be leaders. Among smaller towns, there are also role models and driving forces for change, notably for example in Los Pozos and Portobelo. Among these are rural, urban, agricultural, industrial, and service industry communities, with Colón and Portobelo including large portions of their district in the critical Panama Canal watershed. Their leadership will be essential and appears already well-directed in its effort to consolidate membership and strengthen AMUPA as a representative association which is representative of Panamanian municipalities and their interests. AMUPA's progress will be monitored closely by the project contractor and will be examined and discussed at the project coordination meetings.

The risks are minimal and do not outweigh to any significant degree the likely benefits of the project. If the desired legislative reform stalls, the strengthening of the capabilities of the municipalities and of AMUPA would still provide sustained improvement in municipal operations. If AMUPA proves less effective than hoped, the other activities would nevertheless represent a significant improvement. In that case, as well, it might be possible to provide more direct technical assistance toward legal reform, through the informal association of District Representatives or to the legislative assembly through the project contractor with the assistance of IPADEM.

Training and Technical Assistance Components Through the Mission conducted focus groups, it is quite apparent that municipal officials, and the newly elected mayors in particular, are keenly interested in participating in training and technical assistance activities so as to develop needed skills and learn modern, standard technologies and approaches. The likely model municipalities are also anxious to participate in the project and the Mission foresees no reason for delays nor significant problems in the timely implementation of the intensive technical assistance planned. ICMA's role will be intense at least within the first one to two years of the project and then will be reduced in order that IPADEM might take over primary responsibility for project implementation. Should IPADEM prove unable to undertake this responsibility during the life of the project, ICMA will continue its lead role. Thus, risk as to significant delays or problems in project implementation are minimized and at the same time the project allows for the increased participation of a Panamanian NGO which will lend sustainability to the project and its impact after the PACD. This is in full support of the Agency's New Partnership Initiative.

Finally, the interest of the IDB and the Spanish (AECI), as examples, demonstrates that more and more the international community recognizes that without local development the overall success and development of a country cannot be sustained. The project anticipates continued support from other donors notwithstanding the vagaries of donor organization budgets. USAID will maintain regular contact directly with donors working in this sector, invite them to the regular project coordination meetings as appropriate, and help to foster coordination through MIPPE and MGJ and their offices of local government/municipal affairs.

VI FINANCIAL PLAN AND COST ESTIMATES

A USAID Resource Requirements and Assumptions

The total estimated budget for this five-year project is approximately \$3,335,000. USAID will contribute \$2,500,000 and the GOP will contribute counterpart funding in the amount of \$835,000.

Total USAID project expenditures are to be utilized in the following categories training component model municipalities/technical assistance component legislative reform component procurement of commodities monitoring and evaluation and project management The costs associated with each of these categories are estimated as shown in Table 1

Table 1 Municipal Development Project Cost Summary
(In U S Dollars)

Model Municipalities/Technical Assistance	\$1,054,000
Training	\$ 385,000
Legislative Reform	\$ 244,000
Procurement of Commodities	\$ 150,000
Project Management	\$ 300,000
Monitoring and Evaluation	\$ 90,000
Audits	\$ 60,000
Inflation	\$ 110,000
Contingency	<u>\$ 107,000</u>
	<u>\$2,500,000</u>
Counterpart Contribution	\$835,000
PROJECT TOTAL	<u>\$3,335,000</u>

Table 2 shows the estimated level of expenditure by project year over the life of the five year project

Table 2 Illustrative Life-of-Project Budget						
Project Element	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
1) Model Municipalities/ Technical Assistance	241,987	271,543	256,427	258,043	26,000	1,054,000
2) Training	97,597	99,667	87,880	83,856	16,000	385,000
3) Legislative Reform	60,454	64,697	60,331	54,518	4,000	244,000
4) Procurement of Commodities		20,000	54,400	55,600	20,000	150,000
5) Project Management	60,000	60,000	60,000	60,000	60,000	300,000
6) Evaluations		45,000			45,000	90,000
8) Audit			20,000	20,000	20,000	60,000
9) Inflation	19,187	28,912	26,787	25,546	9,568	110,000
10) Contingency	21,000	25,000	25,000	18,000	18,000	107,000
GRAND TOTAL	500,225	614,819	590,825	575,563	218,568	2,500,000

The cost estimates have been based on the following assumptions

- (1) Technical assistance, training and assistance to AMUPA (legislative reform) will be provided during the first two years of the project under a buy-in through a Global Bureau contract with the International City/County Management Association (ICMA). In the third and fourth year, the local NGO will take over project implementation responsibilities. Technical assistance and training will take place in years 1-3 with some follow-on work taking place in year four. Only final evaluations and audits (as necessary) will take place in year five. As noted previously, the project is designed in this way so as to address the very immediate need for assistance on the part of new municipal officials.
- (2) Part-time secretarial services are included to help in the training and technical assistance components. This cost is carried through to year 5 to assist in project close-out activities.
- (3) Commodities will be procured based on the needs of the selected model municipalities and the full-time project advisors.
- (4) The project will fund two evaluations. A mid-term evaluation will take place approximately 2 1/2 years after project implementation begins. A final evaluation will take place before the project's PACD.
- (5) A Foreign Service National will be contracted to serve as USAID project manager and monitor performance of project activities. Funding includes amounts necessary to cover miscellaneous expenses.
- (6) Contingency represents unanticipated project costs which may arise.
- (7) The inflation factor is 5.5%.
- (8) The U.S. contractor is to be audited under OMB Circular A-133 as well as any sub-contractor hired under this contract. The local NGO (contracted via an HB 13 agreement) will be audited annually after Year Two.

B Obligation Actions and Schedule

The model municipalities/technical assistance, training and legislative reform components will include the buy-in to the Global Bureau's contract which will total approximately \$1,683,000 over the life of the project. If certification of IPADEM is achieved, a portion of these funds (for the three principal project components) will be provided through a HB 13 grant/agreement with IPADEM. The total amount of the agreement will depend upon the point in the project at which IPADEM takes over project implementation responsibilities.

Funds for procurement of commodities, USAID project management, evaluations and audits will be obligated through purchase orders, Personal Services Contracts (PSCs) and direct USAID contracts respectively. An open and competitive process will be used in most cases; in others a justification for non-competition will be prepared.

All small value commodities procurement will be done by USAID/Panama. Other procurement such as that done via Delivery Orders under the Buy-In will be done by the Regional Contracts Office in Guatemala. For the contracts and agreements which will have incremental funding, the full estimated contract/agreement amount for the life of the project is shown. Further detail on methods of procurement is included in Section VII C (Audits/Procurement Plan) below.

The Municipal Development Project was included in the USAID/Panama FY 96-97 Action Plan at an estimated funding level of \$2.5 million. An illustrative obligation schedule is presented in Table 3.

Table 3 Illustrative Obligation Schedule

<u>Fiscal Year</u>	<u>Total (\$000)</u>	<u>Cumulative</u>
1995	1,356	1,356
1996	1,144	2,500

C Counterpart Contributions

The GOP and municipalities will primarily contribute personnel, office space and operational support for a total of \$835,000 which represents 25% of the overall project costs. USAID will periodically monitor host-country support and will report these contributions as part of the standard USAID financial reporting.

The contributions from the GOP and municipalities will consist of the following elements: (1) the time and salaries of staff from municipalities and central government agencies that participate in this project; and (2) the financial resources and in-kind contributions from municipalities and local communities.

VII MANAGEMENT PROCEDURES

A Project Management

The Municipal Development Project will be managed by the Office of Democratic Initiatives (ODI) within the Mission, with the Chief of ODI serving as the project officer. A Panamanian with many years experience working with municipalities throughout Panama will be the project manager. Project funds will be used to support this position and related costs. The project manager will monitor performance of contracted activities and monitor progress toward objectives. The project manager will also be responsible for the tracking of indicators and assuring that, as appropriate, indicators are gender disaggregated. The USAID project manager will also gather information for and prepare Semi-Annual Reports, prepare scopes of work for and manage evaluations, and generally keep the Mission informed of project progress and issues that need attention.

On behalf of the Mission, the project manager will maintain close relationships with AMUPA and all counterpart institutions at the national and local level so as to ensure consistency with the project's purpose and objectives. Monitoring of contracted support will be accomplished through Mission concurrence with work plans, review of progress reports, close liaison with all project supported personnel in all aspects of the work, and site visits to verify progress and identify issues. The USAID project manager will also be primarily responsible for assisting the USAID certification of IPADEM and assuring the smooth transition of the shift in responsibilities from ICMA to IPADEM once certification is achieved.

This structure will be incorporated into USAID's reengineering process so that decisions will be coordinated through the Strategic Objective teams and evaluations conducted in view of the relevant results packages. Furthermore, it is expected that specific areas of concern in given municipalities

will include environmental management and small project activity (for example construction or repairs to aqueducts health centers and bridges) As part of USAID's reengineering, best use will be made in those cases of the Natural Resources Management Project (525-0308) and the Special Development Activities (SDA) Project (525-0101) so that specific communities being assisted under the SDA project and specific training and technical assistance under the Natural Resources project (particularly as related to Trust Fund activities) will take into account the model municipalities and the special needs of those municipalities receiving assistance under this project

In addition the Financial Management Reform Project (525-0306) and the CLASP II project (525-1001) will provide support that will complement the project specifically providing training in financial planning and budget preparation under 525-0306 and under CLASP II coordinating short-term training participant selection with local municipal authorities and citizen groups Finally, the project will avail itself whenever possible of the work being done under the Improved Administration of Justice Project (525-0312), particularly as relates to public legal education and legal reform

B Monitoring and Evaluation System

The USAID project manager will monitor project implementation on behalf of the Mission He will manage the buy-in and will provide technical direction to ICMA and IPADEM as needed

Monitoring will be systematized through annual work plans prepared by ICMA and approved by the Mission and through quarterly reports submitted by ICMA which will show progress on work plan tasks Each fourth quarter report (i.e. at the end of each year) will include an evaluation of project progress over the course of the past year and major issues or obstacles encountered The USAID project manager will monitor progress also through close contact with ICMA and review of their work plans and quarterly reports as well as through field visits to review ongoing project activity

ICMA will monitor technical assistance and training activities at the national and municipal level and compliance with any agreements with the model municipalities, AMUPA or other entities, as to shared responsibilities and counterpart contributions At such time when IPADEM has met USAID certification standards and is ready take on primary responsibility for project implementation, it will be also responsible for carrying out all project monitoring activities formerly assigned to ICMA

Funds are included in the project for two major independent evaluations The first will be a mid-term evaluation late in the second year of the project which will evaluate progress of the project to date The technical assistance and training components will be evaluated as will the progress toward achievement of interim targets in terms of legislative reform The evaluations will include any recommendations the authors wish to make as to possible changes in focus or methodology in the project The final evaluation will take place in the last half of the fifth year The evaluation team will analyze implementation achievements as measured against targets outputs and indicators Evaluation teams will be competitively selected

C Audits/Procurement Plan

Funds will be provided for audits as required, in accordance with USAID regulations Such funds are not budgeted in year one of the project as no audits are necessary In year two, an audit of IPADEM, as a HB 13 grant recipient, may be required depending on the project's ability to receive certification for the Institute and to complete a grant agreement In any case project funds in the amount of

\$ 60 000 have been budgeted for audits. The U S contractor (ICMA) accessed through a buy-in will be subject to the provisions of the Single Audit Act as applicable under which regular audits will be performed by the Contractor s cognizant Inspector General.

The methods of implementation and financing to be used during project implementation along with a summary of project procurements are shown in Table 4. As noted earlier, the three main project components will be included in the buy-in to the Global Bureau's contract with ICMA (year 1-2) and, once certification of IPADEM is achieved, a portion of these funds will be obligated through a HB 13 grant/agreement with IPADEM. The total amount of the agreement will depend upon the point in the project in which IPADEM takes over project implementation responsibilities. Commodities will be obtained through purchase orders and/or ancillary procurement included in the buy-in to the USAID/Washington contract with ICMA and/or the HB 13 grant or cooperative agreement with IPADEM.

The USAID project manager will be contracted via a Personal Services Contract (PSC) which will be incrementally funded and amended as necessary by USAID/Panama or the Regional Contracts Officer as necessary. Due to the particularity of the political and legal situation of Panama and the critical contacts that are necessary with municipal and central government officials, a Panamanian Foreign Service National (FSN) will be hired via a competitive process or as otherwise justified for non-competition.

Evaluations and audits will be conducted via direct USAID contracts, awarded on a competitive basis. PIO/Ts to obtain these services will be provided by USAID/Panama.

For the contracts and agreements which will have incremental funding, the full estimated contract/agreement amount for the life of the project is shown (Table 4) along with estimated award date.

Table 4 Method of Implementation and Financing

<i>Project Element</i>	<i>Est Award Date</i>	<i>Estimated Amount</i>	<i>Method of Financing</i>	<i>Method of Implementation</i>	<i>Responsible Party</i>
TA/Training/Legal Reform	9/95 (25%) ¹	\$1 683 000	Direct Reimbursement	Buy-in to Global Bureau contract (ICMA) ²	AID/W
Procurement of Commodities	TBD	\$ 150 000	Direct Payment	Purchase Orders (or ancillary through buy-in/HB 13 agreement)	USAID/ Panama
Project Management	9/95 (20%) ³	\$ 300 000	Direct Payment	FSN project manager	USAID/ Panama
Mid-term Evaluation	10/97	\$ 45 000	Direct Reimbursement	Mid term evaluation contract	USAID/ Panama
Final Evaluation	10/99	\$ 45 000	Direct Reimbursement	Final evaluation contract	USAID/ Panama
Audits	TBD	\$ 60,000	Direct Payment	Audit contracts	USAID/ Panama

All commodities services and their suppliers financed by USAID under this Project shall have their source and origin in the United States of Central American Common Market (CACM) countries, except as USAID may otherwise agree in writing Buy America policy will be followed except as USAID may otherwise agree in writing in the various agreements and contracts signed under the Project

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1 Additional awards in this element as well as awards To Be Determined (TBD) will depend on the various factors cited in the Project Paper including as to project activity calendar and possible grant/agreement with IPADEM

2 Subject to any HB 13 grant/agreement which might be signed with IPADEM

3 Approximately \$60 000 per year

ANNEX A

Focus Group Diagnostic Methodology and Persons Interviewed

In December 1994 and January 1995 the Mission conducted a series of focus group interviews with municipal authorities in Panama. Participating for the Mission were the Director, the Chief of the Office of Democratic Initiatives, the Project Manager, and a senior member of the Office of Program and Project Development.

The views and information developed from interviews with the following people have been incorporated in the analysis presented in this Project Paper.

1 ***Penonome***

Sra America Torrez de McElfish	Mayor Penonome
Sr Roberto Murillo	Mayor Nata
Sr Magdaleno Arrocha	Concejal, District of Penonome
Sr Carlos Villarreal	Concejal, District of Penonomé
Sr Jaime Suarez	President of the Council Penonomé
Sr Hilberto Acosta	Concejal, District of Penonome
Sr Alexis Barrios	Concejal, District of Penonome
Sr Cristobal Cherigo	Concejal, District of Penonomé
Sr Francisco Gill	Concejal, District of Penonomé
Sr Carlos Jaen	Concejal, District of Ola
Sr German Peñalosa	Concejal, District of Ola
Sr Dionisio Pascual	Concejal, District of Nata
Sr Pedro Castillo	Concejal, District of Nata
Lic Edgardo Efrain Ubarte	Municipal Advisor, Penonome
Ing Hermel Guardia	Representative of GEOTEC/MINAS group

2 ***Los Pozos***

Sr Armanodo Quintero	Mayor Los Pozos
Sr Porfirio Pimentel	Mayor Las Minas
Sr Jose Arturo Correa	Mayor, Pese
Sra Josefa de Monterrey	Mayor, Los Santos
Sr Calletano Rodriguez Diaz	Mayor, Tonos
Sr Ricaurte Vidal	Mayor Macaracas
Sr Israel Rodriguez	President of the Provincial Council of Los Santos
Sr Francisco Alfonso	Concejal, District of Pese
Sra Maria T Rodriguez	Treasurer, District of Macaracas
Sr Feliciano Franco	Treasurer, District of Las Minas
Sr Pedro Alfonso	Concejal, District of Pese
Sr Adolfo Almendas	President, Council of Los Pozos
Sr Marcelino Iguada	President, Council of Macaracas
Sr Jorge Conzumboys	President, Provincial Council of Herrera
Sr Eliecer Cortez	Director of DIGEDECOS, Los Santos

Sr Omar Bultron
Sr Ambrosio Rodriguez
Srta Juanita Gomez
Sr Donato Cedeño

Concejal Los Cerritos Los Pozos
Concejal Calabacito Los Pozos
Treasurer District of Los Pozos
Concejal District of Macaracas

3 ***Dolega***

Sr Edwin Quiel
Sr Leonel Acosta
Sr Jose Arsenio Pitti
Sr Juan M Valerin
Sr Ernesto Valdez

Mayor, Boquete
Mayor, Dolega
Mayor, Gualaca
Mayor Remedios
Mayor, San Felix

4 ***Colon***

Sr Alcibiades Gonzales
Sra Xiomara de Vallarino

Mayor Colón
Legal Advisor

5 ***Portobelo***

Sr Nelson Jackson Palma
Sr Rauviere Cerezo
Sr Carlos Bracho
Sr Ananias Olmedo Cedeño
Sr Analdo Voitier
Sr Victor Manuel Chian
Sr Ramon Herrera
Sr Daniel Alvarez

Mayor, Portobelo
Mayor, Donoso
Mayor, Chagrés
Representative Puerto Lindo
Representative, Portobelo
Representative, Isla Grande
Representative, Cacique
Representative, Maria Chiquita

6 ***Chorrera***

Sr Edwin Castillo
Prof Cristobal Cañizalez
Sr Alejandro Cruz
Arq Francia de Rodriguez
Ing Abilio A Dominguez
Sra Amelia V Dominguez M
Sr Victor Moreno
Lic Eliseo Pulice
Sr Luis Dominguez

Mayor, La Chorrera
Mayor, Arraijan
Chief Accountant, La Chorrera
Municipal Engineer, Arraijan
Municipal Engineer La Chorrera
Secretary, La Chorrera
Treasurer, La Chorrera
Legal Advisor, La Chorrera
Concejal, La Chorrera

7 ***Panama City***

Sr Heriberto Martinez

Acting Mayor

ANNEX B

Municipal Development Reference Material

- A Challenge for Central American Democracy A Municipal Agenda*, USAID/RHUDO, September 1992
[English and Spanish versions]
- AID Assistance to Local Governments Experience and Issues*, USAID, November 1983
- Central Americans View their Local Governments A Six-Nation Study*, 1994, Mitchell A Seligson,
under auspices of ROCAP/RHUDO, October 5 1994 (in coordination in Panama with Orlando
Pérez PH D candidate University of Pittsburgh and research Associate of CELA (Centro de
Estudios Latinamericanos "Justo Arosemena")
- Guatemalan Peace Scholarships Training for Local Community Development*, (undated)
- Hacia Una Estrategia Nacional de Descentralization y Desarrollo Municipal (Ideas y Recomendaciones)*,
IPADEM July 1994 1995
- Leyes de los Gobiernos Locales de Panama* 2da Edicion Hector J Pinilla H 1990
- Local Government Regional Outreach Strategy (LOGROS) Project Paper Amendment Number 1*, PACD
9/99
- Manual Del Alcalde*, IPADEM, 1994
- Manual y Guia del Corregidor* IPADEM, 1994
- Manual Del Tesoro* IPADEM 1994
- Materials on the history and organization of public hearings at the local or municipal level of
government*, POL/CDIE/DI, April 1994
- Municipal Development Project Paper*, USAID/El Salvador, PACD 9/99
- Municipal Development Project Paper*, USAID/Honduras (and related materials), PACD 6/97
- El Regimen Municipal en Panama*, IPADEM, July 1994
- Sistemas Tributarios de los Gobiernos Locales en el Istmo Centroamericano*, Secretaria Permanente
del Tratado General de Integracion Economica Centroamericana (SIECA) under auspices of
SIECA/RHUDO-AID July 1994
- La Tesoria Municipal* IPADEM July 1993

POVERTY INDEX

Poverty Index By Province And District

<i>Provinces and Districts</i>	<i>Poverty Index</i>	<i>Provinces and Districts</i>	<i>Poverty Index</i>
San Blas	19 14	Herrera	80 12
Darien	29 96	Las Minas	35 36
Cémaco	13 08	Los Pozos	52 12
Chepigana	32 28	Ocu	63 46
Pinogana	35 41		
Bocas del Toro	47 30	Santa María	89 64
Chiriquí Grande	0 00	Pesé	84 30
Bocas del Toro	22 42	Chitré	100 00
Changuinola	70 84	Colón	84 80
Veraguas	52 30	Donoso	40 28
Cañeros	14 59	Chagres	51 46
Las Palmas	22 53	Santa Isabel	53 48
Santa Fe	31 90	Portabelo	74 16
San Francisco	33 55	Colón	91 04
La Mesa	40 78	Los Santos	85 69
Calobre	44 55	Tonosi	66 55
Soná	48 25	Macaracas	67 55
Río de Jesús	50 75	Pedasí	86 03
Montijo	51 23	Pocri	86 54
Atalaya	72 81	Guarare	90 61
Santiago	86 54	Los Santos	92 03
Chiriquí	67 90	Las Tablas	93 41
Iole	5 78	Panamá	94 91
San Lorenzo	10 76	Chimán	28 24
Remedios	22 94	Chepo	57 35
San Félix	27 93	Capira	61 12
Renacimiento	59 25	Barbon	61 12
Gualaca	64 97	San Carlos	78 27
Boquerón	68 36	Chame	87 19
Atarje	69 14	Inboga	88 51
Barú	77 47		
Bugaba	79 64	La Chorrera	92 81
Cocle	71 78	Arraiján	94 92
Olá	31 81	Panamá	98 01
La Pintada	56 49		
Penonome	64 69		
Antón	75 62		
Natá	77 20		
Aguadulce	95 00		

Note: The Poverty Index by Province is based on a Poverty Index by District done by MIPPL.

The Poverty Index is comprised of three variables: housing, education and health. Housing comprises percent of households with running water, sanitary services and electricity and percent of households with three or more persons per room. Education is comprised of percent of students 5-15 years old out of school, percent of illiterate people over 10 years old and percent of the population over ten years old with less than three years of primary school. Health is comprised of infant mortality, percent of first grade students with growth stunting and percent of infants born without professional help. The poverty index by Province is the weighted addition of all the district indexes. Each district is weighted by its population index.

POPULATION EVALUATION
(Source Controller General, Republic of Panama, 1991)

Cuadro 1 POBLACION DE LA REPUBLICA POR PROVINCIA CENSOS DE 1911 A 1990

Año	Total	Bocas del Toro	Coclé	Colón (1)	Chiriquí	Darlen	Herrera	Los Santos	Panamá	Vera-guas
POBLACION										
1911	336,742	22,732	35,011	32,092	63,364	8,992	23,007	30,075	61,855	59,614
1920	446,098	27,239	45,151	58,250	76,470	10,728	28,984	34,638	98,035	66,603
1930	467,459	15,851	48,244	57,161	76,918	13,391	31,030	41,218	114,103	69,543
1940	622,576	16,523	55,737	78,119	111,206	14,930	38,118	49,621	173,328	84,994
1950	805,285	22,392	73,103	90,144	138,136	14,660	50,095	61,422	248,335	106,998
1960	1,075,541	32,600	93,156	105,416	188,350	19,715	61,672	70,554	372,393	131,685
1970	1,428,082	43,531	118,003	134,286	236,154	22,685	72,549	72,380	576,645	151,849
1980 (a)	1,805,287	53,487	140,903	162,454	287,350	26,524	81,963	70,261	809,100	173,245
1990 (a)	2,329,329	93,361	173,190	202,338	370,227	43,832	93,681	76,947	1,072,127	203,626
TASA DE CRECIMIENTO ANUAL (Por 100 habitantes)										
1911	3.17	2.03	2.86	6.85	2.11	1.98	2.60	1.58	5.25	1.24
1920	0.47	-5.57	0.66	0.19	0.06	2.25	0.68	1.76	1.63	0.43
1930	2.76	0.39	1.38	3.01	3.56	1.04	1.97	1.78	4.05	1.92
1940	2.56	3.02	2.69	1.41	2.15	-0.18	2.71	2.11	3.59	2.29
1950	2.94	3.83	2.45	1.58	3.15	3.01	2.10	1.40	4.14	2.10
1960	3.06	3.12	2.54	2.60	2.43	1.50	1.74	0.27	4.76	1.52
1970	2.37	2.08	1.79	1.92	1.98	1.58	1.23	0.30	3.44	1.33
1980	2.58	5.73	2.08	2.22	2.57	5.15	1.34	0.91	2.85	1.63
1990										

(1) Para efectos de comparación se le incluye la población de la Comarca de San Blas

(a) Excluye la población civil y militar que reside en las áreas bajo control militar de los Estados Unidos de América en las provincias de Panamá y Colón

Cuadro No 1 Poblacion y tasa de crecimiento de los corregimientos de la Cuenca Hidrografica del Canal de Panamá (1980-1990)

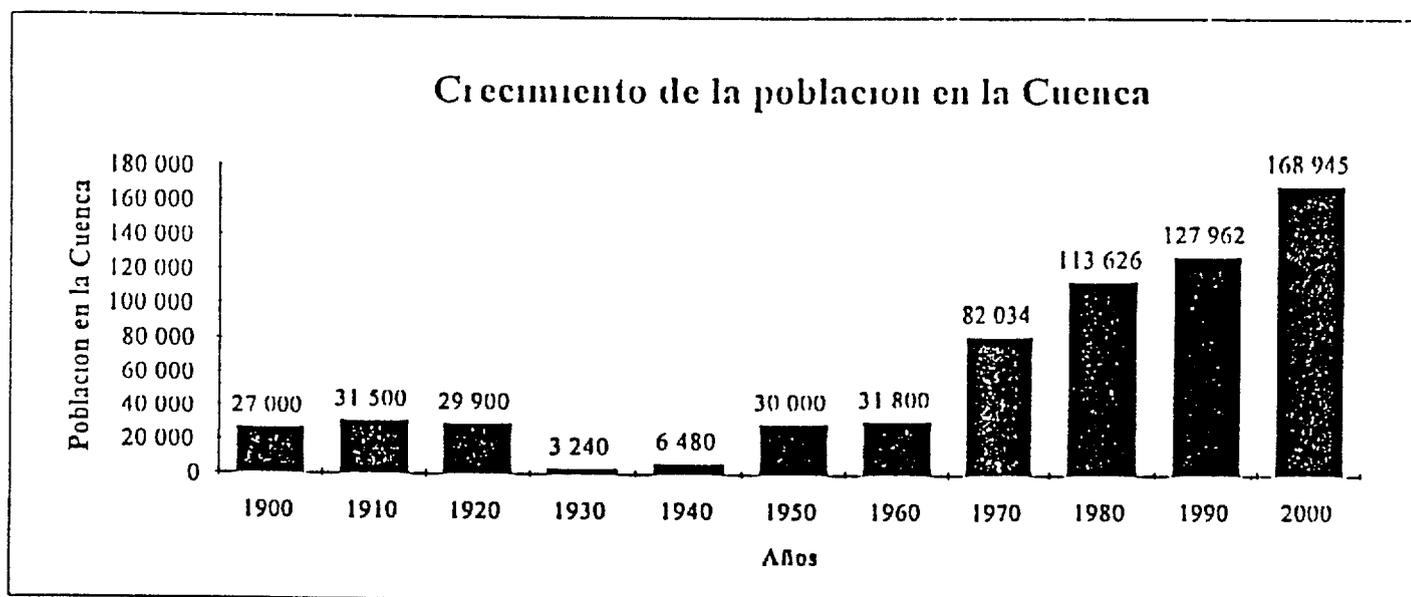
Distrito / Corregimiento	1980	1990	Tasa de crecimiento
Arraiján			
Nuevo Emperador (p)	1 286	1 621	2 30
Santa Clara (p)	1,169	1 422	1 95
Capira			
Caimito (p)	783	1,116	3 51
Ciri Grande (p)	832	1,510	5 79
Ciri de Los Sotos (p)	906	1,187	2 30
El Cacao	2,438	4,042	4 95
Trinidad	1,626	2,160	2 82
Colon			
Buena Vista	5,190	7,547	3 70
Cativá (p)	402	766	6 23
Ciricito (p)	1 727	2 067	1 79
Cristobal (p)	656	1,741	9 05
Escobal (p)	1 450	1 679	1 46
Limon	2,700	3,209	1 72
Nueva Providencia	703	1,253	5 62
Puerto Pilón (p)	241	258	0 68
Sabanitas (p)	621	1,965	10 39
Salamanca	1 733	2 675	4 27
San Juan	5 839	8 716	3 95
Santa Rosa	460	533	1 47
Chagres			
La Encantada	208	281	3 05
La Chorrera			
Amador	1 622	1 925	1 71
Arosemena	498	340	-3 77
El Arado	546	480	1 29
Herrera	257	234	0 94
La Represa	731	650	-1 17
Mendoza	1,120	851	-2 73
Panamá			
Ancon (p)	1 659	2 054	2 13
Chilibre	18 168	27 135	3 96
Las Cumbres	16,581	28 234	5 20
Pacora	443	528	1 77
Portobelo			
Maria Chiquita	-----	41	-----
Total	73,131	108,972	4 07

(p) Indica que los datos corresponden a una parte del corregimiento

Fuente: Contraloría General de la Republica 1991 Dirección de Estadística y Censo Volumen de lugares poblados 1980 y 1990

Figura No 1 Curva de crecimiento de la poblacion de la Cuenca Hidrografica del Canal de Panamá

Años	Población
1900	27 000
1910	31 500
1920	29 900
1930	3 240
1940	6 480
1950	30 000
1960	31 800
1970	82 034
1980	113 626
1990	127 962
2000	168 945



Fuente Heckadon S 1986 El costo ambiental del desarrollo en la Cuenca del Canal pp 9-43 En Heckadon Moreno S (ed) La Cuenca del Canal de Panamá Memorias del seminario Taller Estado actual y futuro de la Cuenca del Canal de Panamá', 380 pp

**ANNEX E
LOGICAL FRAMEWORK**

From FY 96 to FY 00
Total U S Funding \$2,500,000
Date Prepared 7/3/95

Project Title and Number

Municipal Development Project (525-0324)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Goal</p> <p>To Support the Development of Efficient Responsive Municipal Government</p>	<p>Measures of Goal Achievement</p> <p>1) Empowerment of municipalities to be more responsive to local needs 2) Citizen satisfaction with municipal government increased</p>	<p>1) Reports from input/USAID professional knowledge 2) Opinion polls/surveys</p>	<p>Assumptions for Achieving goal targets</p> <p>1) Democratic national government continues to exist 2) Decentralization policies enacted municipal laws are passed</p>

Purpose	Conditions that will indicate purpose has been achieved End of Project Status		Assumptions for Achieving purpose
To enhance municipal capacity to generate and manage basic local revenues improve basic services and include citizens in local decision making process	1) Model municipalities will have increased their revenues by 90% ¹ 2) Model municipalities will have increased amount of municipal revenues dedicated to capital investment by at least 20% 3) Model municipalities will have increased the percentage of their budget dedicated to public services by at least 15% 4) Citizen (customer) satisfaction with model municipalities service delivery will have increased by at least 20% 5) Citizens actively participating in decision making will increase by at least 20% in model municipalities	1) Municipal government records and reports 2) National government publications and records 3) Project records and reports 4) Contractor quarterly reports bulletins and annual workplans 5) Citizen (customer) opinion polls/surveys	1) Municipal officials willing to undertake steps necessary to increase revenues and improve financial management 2) Community willing to pay local taxes 3) Citizens willing to participate in local planning & decision making processes 4) Municipal governments will have political will to increase citizen participation

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs 1) Improve municipal service delivery for basic local services	1) Coverage (homes) of service provided by model municipalities increase by 20% over the life of the project 2) All model municipalities have issued at least one service concession which provides for private sector involvement in service delivery	1) Project records & reports 2) Municipal records reports contracts	1) Interest of municipal officials to improve service delivery 2) Private sector involvement will help to improve service delivery

¹ Baseline data for all measurements indicated in LOGFRAME will be developed in the first year of the project Targets may be adjusted in light of information developed

df

<p>2) Improved citizen participation in municipal government decision making processes</p>	<p>1) All model municipalities are holding regular open town meetings 2) Model municipality systems and procedures are in place to incorporate citizen input into decision making processes</p>	<p>1) Municipal records minutes of meetings 2) Project records and reports 3) Interviews with citizens groups</p>	<p>1) Communities want to be involved in local affairs and decisions 2) Municipal officials willing to accept citizen input and incorporate it into decisions</p>
<p>3) Greater support for decentralization legislation which strengthens municipal authority and autonomy and increased municipal participation in formulation of decentralization legislation</p>	<p>1) Establishment of a strong representative association of municipalities and municipal interests 2) Significant legislation which affects decentralization of authorities to municipal level enacted or in practice</p>	<p>1) Interviews meetings with AMUPA mayors municipal officials etc 2) GOP Official Gazette records 3) Project reports evaluations</p>	<p>1) Municipalities want to be more involved in development of national policy 2) Political will can be built to decentralize authorities 3) Central government willingness to share authorities</p>
<p>Inputs</p> <p>Technical Assistance \$1 054 000 Training \$ 385 000 Legal Reform (TA) \$ 244 000 Commodities \$ 150 000 Project management \$ 300 000 Evaluation/Audits \$ 150 000 Contingency & Inflation \$ 217,000</p> <hr/> <p>\$2 500 000</p>		<p>1) Project records and reports</p>	<p>1) Funds available on a timely basis</p>

INITIAL ENVIRONMENTAL EXAMINATION

Project Location	Panama
Project Title	Municipal Development Project
Project Number	525-0324
Funding	\$2 5 (FDA)
Life of Project	5 years
IEE Prepared by	Roger Yochelson, USAID/Panama, Chief, Office of Democratic Initiatives

Recommended Threshold Decision

a Recommendation

This project as designed consists of three components. A policy component to address immediate policy needs and to improve the policy-making process at the Municipal level, an in-country municipal development training component to strengthen the management skills of municipal government officials, and a technical assistance component to develop model systems in selected municipalities to strengthen citizen participation and increase service delivery.

Emphasis under all three components will be placed on the impact of improvements in municipal management. Policy work will be concentrated on strengthening the national Municipal Association of Panama. Training will cover topics related to legal rights and duties of mayors and municipal authorities, financial management, and public service delivery. However, to support the Mission's SO of protecting the canal watershed, one of the criteria for the selection of the model municipalities where assistance will be focused will be the effects such assistance will have on the protection of the watershed. Consideration will, for example, be given to the effects improved services and responsiveness of the municipalities to local needs will have on the migration of populations with the intent of reducing the rate of migration into the watershed. None of the activities, however, will have a direct effect on the environment. Therefore all of the project activities qualify for a categorical exclusion according to Section 216.2(c)(2)(1) of 22 CFR as "education, technical assistance or training programs except to the extent such programs included activities directly affecting the environment (such as construction of facilities, etc.)" No construction is planned.

It is therefore recommended that no further environmental study be undertaken for this project and that a "Categorical Exclusion" be approved.



U S AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-95-27

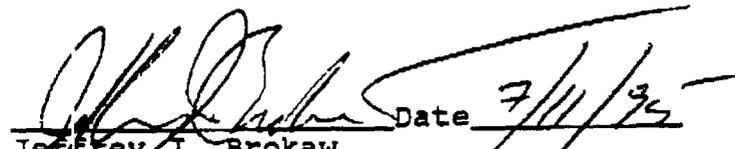
REQUEST FOR A CATEGORICAL EXCLUSION

Project Location : Panama
Project Title : Municipal Development
Project Number : 625-0324
Funding : \$2.5 million
Life of Project : 5 years
IEE Prepared by : Roger Yochelson, USAID/Panama
 Chief, Office of Democratic
 Initiatives
Recommended Threshold Decision: Categorical Exclusion
Bureau Threshold Decision : Concur with Recommendation

Comments:

Categorical Exclusion is issued under 22 CFR 216.2(c)(2)(1), as discussed in the attached IEE.

Funds shall not be used to support: timber extraction, significant deforestation, nor the procurement of equipment that could lead to deforestation without an Environmental Assessment approved by the LAC Chief Environmental Officer (CEO). Funds shall also not be used for the procurement nor use of pesticides without an EA approved by the LAC CEO.


 _____ Date 7/11/95
 Jeffrey J. Brokaw
 Chief Environmental Officer
 Bureau for Latin America
 and the Caribbean

- Copy to : David Mutchler, Director
JSAID/Panama
- Copy to : Robert Hellyer, MEO
USAID/Panama

REQUEST FOR A CATEGORICAL
EXCLUSION (cont'd.)

LAC-IEE-95-27

Copy to

. Wayne Williams, REA
U.S.AID/Guatemala

Copy to

Bernadette Bundy, LAC/CEN

Copy to

. IEE File

MUNICIPAL DEVELOPMENTPROJECT NO 525-0324

PANAMA - 1995

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance:

A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics Certification

(FAA Section 490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of nonagricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 522 of the FY 1995 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries, and programs identified in section 547 of that Act and other provisions of law that have similar notwithstanding authority.) If the recipient is a "major illicit drug producing country" (defined as a country in which during a year at least 1,000 hectares of illicit opium poppy is cultivated or harvested, or at least 1,000 hectares of illicit coca is cultivated or harvested, or at least 5,000 hectares of illicit cannabis is cultivated or harvested) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) has the President in the March 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without Congressional enactment, within 30 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests of the United States require the provision of such assistance?

Yes. The President is expected to certify Panama in the INCSR due on March 30, 1995. Should Panama not be so certified assistance will be terminated.

(2) with regard to a major illicit drug producing or drug-transit country for which the President has not certified on March 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification.

No.

2. Indebtedness to U.S. citizens (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where. (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

We are not aware of any debts the Government of Panama owes to any U.S. citizen for goods and services that meet the criteria set forth in this section.

3. Seizure of U.S. Property (Foreign Relations Authorization Act, Fiscal Years 1994 and 1995, Sec. 527) If assistance is to a government, has it (including any government agencies or instrumentalities) taken any action on or after January 1, 1956 which has the effect of

No.

nationalizing, expropriating, or otherwise seizing ownership or control of property of U S citizens or entities beneficially owned by them without (during the period specified in subsection (c) of this section) either returning the property, providing adequate and effective compensation for the property, offering a domestic procedure providing prompt, adequate, and effective compensation for the property, or submitting the dispute to international arbitration? If the actions of the government would otherwise prohibit assistance, has the President waived this prohibition and so notified Congress that it was in the national interest to do so?

4 Communist and other countries (FAA Sec. 620(a), 620(f), 620D; FY 1995 Appropriations Act Secs. 507, 523): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided directly to Cuba, Iraq, Libya, North Korea, Iran, Serbia, Sudan or Syria? Will assistance be provided indirectly to Cuba, Iraq, Libya, Iran, Syria, North Korea, or the People's Republic of China? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

No.

5. Mob Action (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

No.

6. OPIC Investment Guaranty (FAA Sec. 620(l)) Has the country failed to

No.

58

enter into an investment guaranty agreement with OPIC?

7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

No.

8. Loan Default (FAA Sec. 620(q); FY 1995 Appropriations Act Sec. 512 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1995 Appropriations Act appropriates funds?

No.

9. Military Equipment (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, this has been taken into account by the USAID Administrator at the time of the FY95 USAID Operational Year Budget (OYB).

10. Diplomatic Relations with U.S. (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

11. U.N. Obligations (FAA Sec. 620(u)) What is the payment status of the country's U.N. obligations? If the

Panama's arrearages were taken into consideration by the USAID Administrator

country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

at the time of approval of the FY95 OYB.

12. International Terrorism

a. Sanctuary and support (FY 1995 Appropriations Act Sec. 529; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

No.

b. Airport Security (ISDCA of 1985 Sec. 552(b)): Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No.

c. Compliance with UN Sanctions (FY 1995 Appropriations Act Sec. 518): Is assistance being provided to a country not in compliance with UN sanctions against Iraq, Serbia, or Montenegro and, if so, has the President made the necessary determinations to allow assistance to be provided?

No.

13. Countries that Export Lethal Military Equipment (FY 1995 Appropriations Act Sec. 563): Is assistance being made available to a government which provides lethal military equipment to a country the government of which the Secretary of State has determined is a terrorist government for purposes of section 40(d) of the Arms Export Control Act?

No.

14. Discrimination (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin

No.

or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

15. Nuclear Technology (Arms Export Control Act Secs. 101, 102): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E(d) permits a special waiver of Sec. 101 for Pakistan.) No.

16. Algiers Meeting (ISDCA of 1981, Sec. 720). Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) Yes, Panama was represented at the Algiers Meeting and has yet to enter reservations on the communique but this was taken into consideration by the Administrator at the time of approval of the FY95 Agency OYB.

17. Military Coup (FY 1995 Appropriations Act Sec. 508): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No.

18. Exploitation of Children (FAA Sec. 116(b)). Does the recipient government fail to take appropriate and adequate measures, within its means, to No.

protect children from exploitation, abuse or forced conscription into military or paramilitary services?

19. **Parking Fines (FY 1995 Appropriations Act Sec. 564):** Has the overall assistance allocation of funds for a country taken into account the requirements of this section to reduce assistance by 110 percent of the amount of unpaid parking fines owed to the District of Columbia as of August 23, 1994?

The Government of Panama's unpaid parking fines owed to the District of Columbia as of August 23, 1994 will be taken into account when setting the Operational Year Budget (OYB) for Panama

COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

Human Rights Violations (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No.

COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESI")

Human Rights Violations (FAA Sec. 502B). Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

No.

52

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE IS COUNTRY CHECKLIST UP TO DATE?

A CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country

Development Efforts (FAA Sec. 601(a)) Information and conclusions on whether assistance will encourage efforts of the country to (a) increase the flow of international trade; (b) foster private initiative and competition, (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce, and (f) strengthen free labor unions.

(a), (e), (f) N.A.

(b), (c), (d) Activity will include approaches to public service delivery including possibilities of public/private ventures (i.e., garbage collection, etc.)

2 U.S. Private Trade and Investment (FAA Sec 601(b)) Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S.

N A

participation in foreign assistance programs (including use of private trade channels and the services of U S private enterprise)

3 Congressional Notification

a General requirement (FY 1995 Appropriations Act Sec. 515, FAA Sec. 634A) If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

Project was included in the FY-1995 Congressional Presentation

b. Special notification requirement (FY 1995 Appropriations Act Sec. 520) Are all activities proposed for obligation subject to prior congressional notification?

Project was included in the FY-1995 Congressional Presentation

c Notice of account transfer (FY 1995 Appropriations Act Sec 509) If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N A

c Cash transfers and nonproject sector assistance (FY 1995 Appropriations Act Sec

N A

54
K

536(b)(3)) If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U S interests to be served and a description of any economic policy reforms to be promoted?

4. **Engineering and Financial Plans** (FAA Sec 611(a)) Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U S of the assistance?

N A

5. **Legislative Action** (FAA Sec. 611(a)(2)). If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N.A.

6. **Water Resources** (FAA Sec. 611(b)) If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S C. 1962, et seq)?

N.A

7 **Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1995 Appropriations Act Sec.

N.A

52

536) If assistance is in the form of a cash transfer or nonproject sector assistance

a **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N A

b. **Local currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies

Panama uses the U S dollar

(1) Has A I D (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N A

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

N A

(3) Has A I D taken all appropriate steps to

N.A

56,

ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

N A

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

8 Capital Assistance (FAA Sec. 611(e)) If project is capital assistance (e.g., construction), and total U S assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N A

9 Multiple Country Objectives (FAA Sec 601(a)) Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade, (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices, (e) improve technical efficiency of industry, agriculture and commerce, and (f) strengthen free labor unions

N.A

See A.1., page 1

10. U.S. Private Trade (FAA Sec. 601(b)). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U S.

N.A

51,3

participation in foreign assistance programs (including use of private trade channels and the services of U S private enterprise)

11 Local Currencies

Panama uses the U S dollar

a Recipient Contributions (FAA Secs. 612(b), 636(h)) Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U S are utilized in lieu of dollars

b U.S.-Owned Currency (FAA Sec 612(d)) Does the U S own excess foreign currency of the country and, if so, what arrangements have been made for its release?

N A

12 Trade Restrictions

a Surplus Commodities (FY 1995 Appropriations Act Sec. 513(a)) If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U S producers of the same, similar or competing commodity?

N A

b. Textiles (Lautenberg Amendment) (FY 1995 Appropriations Act Sec 513(c)) Will the assistance (except for programs in Caribbean Basin Initiative countries under U S Tariff

N.A

8 14

Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U S -made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U S exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13 Tropical Forests (FY 1991 Appropriations Act Sec 533(c)(3) (as referenced in section 532(d) of the FY 1993 Appropriations Act). Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

14. PVO Assistance

a. Auditing and registration (FY 1995 Appropriations Act Sec 560) If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A I D , and is the PVO registered with A I.D ?

b Funding sources (FY 1995 Appropriations Act, Title II, under heading "Private and Voluntary

No

All project technical support will be provided under a Buy-in to a Global Bureau contract with the International City/Council Management Association (ICMA) Whenever possible and relevant to a particular type of activity, ICMA will sub-contract with the Panamanian Institute for Municipal Development (IPADEM) which is the single NGO in Panama with experience & expertise related to municipal management and development USAID/Panama will work intensively with IPADEM officials during Year One of the Project to assist them in the achievement of USAID certification and to be registered.

N A.

Organizations") If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

15. **Project Agreement Documentation** (State Authorization Sec 139 (as interpreted by conference report)) Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A I D LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

This Agreement does not have to be reported

16 **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I D policy) Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to

Yes

be specified in metric units when economically available and technically adequate? Will A I D specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17 Abortions (FAA Sec 104(f), FY 1995 Appropriations Act, Title II, under heading "Population, DA," and Sec 518)

a Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? (Note that the term "motivate" does not include the provision, consistent with local law, of information or counseling about all pregnancy options including abortion.)

No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

d Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only)

No

e In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only)

N A

f Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

g Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

No

18 Cooperatives (FAA Sec 111) Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

N A.

19 U.S.-Owned Foreign Currencies

a Use of

bz

currencies (FAA Secs 612(b), 636(h), FY 1995 Appropriations Act Secs 503, 505) Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U S are utilized in lieu of dollars to meet the cost of contractual and other services.

Panama uses the U S dollar

b **Release of currencies** (FAA Sec 612(d)) Does the U.S own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

20 **Procurement**

a **Small business** (FAA Sec. 602(a)) Are there arrangements to permit U.S small business to participate equitably in the furnishing of commodities and services financed?

N A

b **U.S. procurement** (FAA Sec. 604(a)) Will all procurement be from the U S , the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?

Yes

c **Marine insurance** (FAA Sec 604(d)) If the cooperating country discriminates against marine insurance companies authorized to do business in the U S , will commodities be insured in the United States against marine risk with such a company?

N A

d. **Insurance** (FY 1995 Appropriations Act Sec 531) Will any A I D contract and solicitation, and subcontract entered into under

Yes

such contract, include a clause requiring that U S insurance companies have a fair opportunity to bid for insurance when such insurance is necessary or appropriate?

e Non-U.S.

N A

agricultural procurement (FAA Sec 604(e)). If non-U S procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U S)

f Construction or

N A

engineering services (FAA Sec 604(g)) Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries)

g Cargo preference

N A.

shipping (FAA Sec 603)) Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on

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privately owned U S flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

- | | | |
|-------------------|--|-----|
| assistance | h Technical
(FAA Sec 621(a))
If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? | Yes |
| carriers | 1. U.S. air
(International Air Transportation Fair Competitive Practices Act, 1974). If air transportation of persons or property is financed on grant basis, will U S carriers be used to the extent such service is available? | Yes |
| services | j. Consulting
(FY 1995 Appropriations Act Sec. 559). If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? | Yes |

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conversion

k Metric
(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec 2, and as implemented through A I D policy)
Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms?
Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A I D specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and

Yes

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weight), through the implementation stage?

1 Competitive Selection Procedures (FAA Sec 601(e)) Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes

m. Notice Requirement (FY 1995 Appropriations Act Sec 568) Will project agreements or contracts contain notice consistent with FAA section 604(a) and with the sense of Congress that to the greatest extent practicable equipment and products purchased with appropriated funds should be American-made? Yes

21. Construction

a. Capital project (FAA Sec 601(d)) If capital (e.g., construction) project, will U.S. engineering and professional services be used? N.A

b Construction contract (FAA Sec. 611(c)) If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N A.

c. Large projects, Congressional approval (FAA Sec 620(k)). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U S not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N.A

22 U.S. Audit Rights N A
(FAA Sec 301(d)) If fund is established solely by U S contributions and administered by an international organization, does Comptroller General have audit rights?

23 Communist Assistance Yes
(FAA Sec 620(h) Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

24 Narcotics

a Cash Yes
reimbursements (FAA Sec. 483) Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

b Assistance to Yes
narcotics traffickers (FAA Sec. 487) Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances), or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

25. Expropriation and Yes
Land Reform (FAA Sec 620(g)) Will assistance preclude use of financing to compensate

owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

26 Police and Prisons (FAA Sec. 660). Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

27 CIA Activities (FAA Sec 662) Will assistance preclude use of financing for CIA activities? Yes

28 Motor Vehicles (FAA Sec 636(1)) Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U S , unless a waiver is obtained? Yes

29 Export of Nuclear Resources (FY 1995 Appropriations Act Sec 506) Will assistance preclude use of financing to finance-- except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology? N.A

30. Publicity or Propaganda (FY 1995 Appropriations Act Sec 554) Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by No

Congress?

31 Exchange for Prohibited Act (FY 1995 Appropriations Act Sec 533) Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

32 Commitment of Funds (FAA Sec 635(h)) Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

No

33 Impact on U.S. Jobs (FY 1995 Appropriations Act, Sec 545)

a Will any financial incentive be provided to a business located in the U S for the purpose of inducing that business to relocate outside the U S in a manner that would likely reduce the number of U S employees of that business?

No

b Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance

No

is not likely to cause a loss of jobs within the U S ?

c Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture?

No

B CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

N A

1 Agricultural Exports (Bumpers Amendment) (FY 1995 Appropriations Act Sec 513(b), as interpreted by conference report for original enactment) If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S exporters of a similar agricultural commodity, or (2) in support of research that is intended primarily to benefit U S producers?

2 Tied Aid Credits (FY No
1995 Appropriations Act, Title
II, under heading "Economic
Support Fund") Will DA
funds be used for tied aid
credits?

3 Appropriate Yes
Technology (FAA Sec. 107) Is
special emphasis placed on use
of appropriate technology
(defined as relatively
smaller, cost-saving,
labor-using technologies that
are generally most appropriate
for the small farms, small
businesses, and small incomes
of the poor)?

4 Indigenous Needs and
Resources (FAA Sec 281(b))
Describe extent to which the
activity recognizes the
particular needs, desires, and
capacities of the people of
the country, utilizes the
country's intellectual
resources to encourage
institutional development, and
supports civic education and
training in skills required
for effective participation in
governmental and political
processes essential to
self-government.

The project goal is to develop efficient,
responsive municipal governments This
will be seen in greater citizen satisfac-
tion with municipal government perform-
ance in the delivery of basic services
and stronger local ability to manage
revenues and the establishment of sustained
working relationships with citizens, the
NGO community and other local governments.
The project is designed to enhance
mechanisms which include citizens in the
local decision-making process.

5. Economic Development Yes
(FAA Sec. 101(a)) Does the
activity give reasonable
promise of contributing to the
development of economic
resources, or to the increase
of productive capacities and
self-sustaining economic
growth?

Development experience has shown that
strong local economies are essential to
sustained national growth Strong local
economies also require sufficient authority
to raise revenues and execute budget in
order to provide an adequate level of
local public services. Experience in other
Latin American countries has shown that
those services provided by municipalities
or other local entities have generally
been more responsive to local needs than
those which are provided by the national
government

6 Special Development
Emphases (FAA Secs. 102(b),
113, 281(a)) Describe extent
to which activity will (a)
effectively involve the poor
in development by extending
access to economy at local
level, increasing

labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U S institutions, (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries, (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, and (e) utilize and encourage regional cooperation by developing countries

Therefore, the project will assist in the development of, and gaining consensus on, strategies and laws which will devolve authority to Municipalities and allow them greater flexibility in planning and the use of local resources. A second component will include intensive technical assistance to a limited number of model municipalities, focused on increasing citizen access, including women, to the decision-making activities and improved municipal financial and administrative capacity. A third component, Training, will provide needed basic tools, required by locally elected officials and their staff, for prudent municipal management and administration. When appropriate assistance will be sought from the "Federación de Municipios del Istmo Centroamericano" (FEMICA), a regional organization which provides assistance to and work with national municipality associations in the Central American region

7. Recipient Country Contribution (FAA Secs. 110, 124(d)). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes

8. Benefit to Poor Majority (FAA Sec. 128(b)) If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes

9 Contract Awards (FAA Sec 601(e)) Will the

Yes

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project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

10 Disadvantaged Enterprises (FY 1995 Appropriations Act Sec 555). What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

All project technical support will be provided under a Buy-in to a Global Bureau contract with the International City/Council Management Association (ICMA) Whenever possible and relevant to a particular type of activity ICMA may subcontract the services of economically or socially disadvantaged individuals (including women).

11. Biological Diversity (FAA Sec 119(g) Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats, (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection, or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? (Note new special authority for biodiversity activities contained in

N A

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section 547(b) of the FY 1995
Appropriations Act)

12 Tropical Forests (FAA
Sec 118, FY 1991
Appropriations Act Sec 533(c)
as referenced in section
532(d) of the FY 1993
Appropriations Act)

N A

a A.I.D.

Regulation 16: Does the
assistance comply with the
environmental procedures set
forth in A I D. Regulation 16?

N A

b. Conservation:

Does the assistance place a
high priority on conservation
and sustainable management of
tropical forests?
Specifically, does the
assistance, to the fullest
extent feasible. (1) stress
the importance of conserving
and sustainably managing
forest resources, (2) support
activities which offer
employment and income
alternatives to those who
otherwise would cause
destruction and loss of
forests, and help countries
identify and implement
alternatives to colonizing
forested areas, (3) support
training programs, educational
efforts, and the establishment
or strengthening of
institutions to improve forest
management, (4) help end
destructive slash-and-burn
agriculture by supporting
stable and productive farming
practices, (5) help conserve
forests which have not yet
been degraded by helping to
increase production on lands
already cleared or degraded,
(6) conserve forested
watersheds and rehabilitate
those which have been
deforested, (7) support
training, research, and other

N A

actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing, (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas, (10) seek to increase the awareness of U S. Government agencies and other donors of the immediate and long-term value of tropical forests, (11) utilize the resources and abilities of all relevant U S government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved

N A.

will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems, (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock, (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands, (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N A

e Environmental impact statements: Will funds

N A.

be made available in accordance with provisions of FAA Section 117(c) and applicable A I D regulations requiring an environmental impact statement for activities significantly affecting the environment?

N A

13. Energy (FY 1991 Appropriations Act Sec 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act) If assistance relates to energy, will such assistance focus on (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N A.

14. Debt-for-Nature Exchange (FAA Sec. 463) If project will finance a debt-for-nature exchange, describe how the exchange will support protection of (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves, or describe how the exchange will promote (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management

15

Deobligation/Reobligation

N A

(FY 1995 Appropriations Act Sec 510) If deob/reob authority is sought to be exercised in the provision of

78

DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

16. Loans

a. Repayment

N A

capacity (FAA Sec 122(b)) Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest

b Long-range plans

N A

(FAA Sec 122(b)) Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c Interest rate

N A

(FAA Sec 122(b)) If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

d. Exports to

N A.

United States (FAA Sec 620(d)). If assistance is for any productive enterprise which will compete with U S enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

See B6, pages No 20 and 21

17 Development

Objectives (FAA Secs 102(a), 111, 113, 281(a)) Extent to which activity will (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U S institutions, (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions, (3) support the self-help efforts of developing countries, (4) promote the participation of women in the national economies of developing countries and the improvement of women's status, and (5) utilize and encourage regional cooperation by developing countries?

18 Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A).

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor, or if assistance is being made available for agricultural

N A

research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made

b Nutrition:

N A

Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

c Food security:

N A

Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution

19. Population and Health (FAA Secs. 104(b) and (c)) If assistance is being made available for population or health activities, describe extent to which activity

N A

emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

20 **Education and Human Resources Development** (FAA Sec 105) If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development, and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

21 **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106) If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is

a concerned with data collection and analysis,

Training will be provided for officials and staff at all municipal levels in the various skill areas needed for efficient municipal and local government management. Key topics will include the legal framework under which the municipalities operate in Panama. Analyses of the strengths and weaknesses of existing legislation and possible changes aimed at modernizing local public administration, fiscal and financial management systems and practices; and municipal administration with special emphasis on contracting and procurement systems and on encouraging civic participation

N.A.

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the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production, and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment,

b concerned with technical cooperation and development, especially with U S private and voluntary, or regional and international development, organizations,

c. research into, and evaluation of, economic development processes and techniques,

d. reconstruction after natural or manmade disaster and programs of disaster preparedness,

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U S assistance,

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

22 Capital Projects
(Jobs Through Export Act of 1992, Secs 303 and 306(d))

The project will encourage communication and sharing of information with municipal associations in Latin America with the assistance of FEMICA and will also explore possibilities of developing, twinning and/or sister city relationships with U S cities.

N.A.

N.A

N.A

N A

N.A.

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If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?

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C & R SECTION

Republica de Panama

Ministerio de Planificacion y Politica Economica

4 de agosto de 1995

Señor
David Mutchler
Director
USAID/Panama
Ciudad

OFFICE	MD	EXO	EXO/PROC	EXO/PER	EXO/FF	EXO/DNT	EXO/ADM	EXO/ADP	EXO/SHIP	PPEP	OSPES	CONT	ODI	PSD	PPEP	CIIRON	C&R	READER	OTHER	DUE DATE	ATTACHMENT	INITIALS	ACTION	
																					8/15/95			

Estimado señor Mutchler

Por medio de la presente queremos agradecer a la Agencia de los Estados Unidos para el Desarrollo Internacional (AID) por el apoyo que brindará a la República de Panama para la ejecucion de un proyecto cuyo fin es el fortalecimiento de la administracion municipal, tendiente a que la misma sea mas eficiente, brinde mayores y mejores servicios y que invo. ucre mas a los beneficiarios en el proceso de toma de decisiones, al establecer las prioridades de su gestión.

El proyecto, que ha sido diseñado con el apoyo de funcionarios de la Agencia que usted representa, tendrá un costo estimado de aproximadamente Tres Millones Trescientos Treinta y Cinco Mil Balboas (B/ 3,335,000 00), de los cuales Dos Millones Quinientos Mil Balboas (B/ 2,500,000 00) corresponden a fondos de donacion de los Estados Unidos de America, y su equivalente de Ochocientos Treinta y Cinco Mil Balboas (B/ 835,000 00), será aportado como contraparte por los municipios y el Gobierno de Panamá.

El Consejo Económico Nacional, en sesión del 18 de julio de 1995, emitió opinión favorable a la realización de dicho Convenio de Donación No 525-0324 De igual forma, el Consejo de Gabinete, en sesion del 26 de julio de 1995, aprobó la firma del Convenio sujeta a que este Ministerio, en coordinación con el Ministerio de Salud y el Ministerio de Gobierno y Justicia, escojan los cinco municipios en los cuales se concentrará el programa Mucho le agradecería su llamada para fijar la fecha de firma del convenio

Del señor Director, con las muestras sinceras de consideración y aprecio



Atentamente,

Guillermo P. Chapman Jr.
Guillermo P. Chapman Jr.
Ministro

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