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AGRICULTURAL POLICY FORMULATION AND MANAGEMENT PROJECT:

INSTITUTIONAL ANALYSIS AND POLICY FORMULATION

Consultant's Report

to USAID/Panama

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## EXECUTIVE SUMMARY

The public institutions in Panama's agricultural sector are weak, unable to perform serious analysis of economic policies, and equally ill-equipped to implement rational agricultural policies once announced. The Ministry and the autonomous agencies are only nominally coordinated, and sometimes work at cross-purposes. The annual budget process is poorly understood, and several agencies do not cut back programs proposed in their budget submissions to fit the resources that actually become available. This leads inevitably to shortcomings in program execution, and ineffectiveness in carrying out the mandates of the Ministry and the autonomous agencies. Staff hiring, evaluation, promotion and salary structures are all deficient, with consequent problems of morale and public image.

Major economic policy decisions have been announced by the GOP in the last two years, some implying major changes in the agricultural sector. The economists and planners of the public agricultural sector were not involved in that decision-making process. The Panamanians who did influence those decisions know little about the rural sector, and have neither the ability nor the wish to design specific policies with which to pursue the objectives announced so firmly about a year ago. They expect that policy analysis to come from the Sectoral Planning Office (DNFS) attached to the Ministry of Agricultural and Livestock Development (MIDA). That is also the desire of the present Minister, and one component of the USAID Project will help the DNFS create that capability, and demonstrate its usefulness to decision-makers.

Policy analyses can be performed by imported economists (as is now being done under the World Bank's Technical Assistance Loan (TAL)). Alternatively, the GOP could try to identify and hire qualified Panamanians now working elsewhere. The first approach risks errors arising from a lack of familiarity with Panama's economy and society, as well as from problems with the data. The second appears to be prohibitively expensive. Thus this Report recommends a third approach, creating the capacity for competent policy analysis by identifying and training qualified Panamanians, and restructuring the DNPS and MIDA to retain these trained Panamanians after the AID project ends.

The principal inputs of the Policy Analysis component are resident advisors, short-term consultants, and intensive training in Panama and abroad. Training should be conducted first in Panama, with tests included in that training helping select those to receive post-graduate training abroad. Those staff members sent abroad for M.S. training should return to the DNPS for two months during the academic vacation period, for specific tasks and in order to maintain their links with DNPS and Panama. Trainees showing the greatest promise during M.S.-level training will continue toward the Ph.D., and at both levels they will be required to write theses on topics relevant to Panamanian agricultural policies.

Project activities could begin almost immediately. One early task that will support policy analysis, assist in the ongoing World Bank policy studies, and facilitate all of the other work of the DNPS, is the preparation of inventories of data, data sources, knowledgeable people, and short studies of current and long-term concerns and hopes of producers of each of the major agricultural and livestock products.

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ACRONYMS

AID	The United States Agency for International Development
ANAGAN	The National Association of Cattlemen
BDA	The Bank for Agricultural and Livestock Development
DNPS	The Sectoral Planning Office of the MIDA (q.v.)
ENASEM	The National Agricultural Seed Marketing Enterprise
ENDEMA	The Agricultural Machinery Enterprise
FAO	The Food and Agricultural Organization of the United Nations
GOP	The Government of the Republic of Panama
IDB	The Inter-American Development Bank
IDIAP	The Institute for Agricultural and Livestock Research
IICA	The InterAmerican Institute for Cooperation in Agriculture
IMA	The Institute for Agricultural Marketing
IMF	The International Monetary Fund
ISA	The Institute for Agricultural Insurance
MICI	Ministry of Commerce and Industry
MIDA	The Ministry of Agricultural and Livestock Development
MIPPE	The Ministry of Planning and Economic Policy
OAS	The Organization of American States
ORP	The Office for the Regulation of Prices
RENARE	The Directorate for Renewable Natural Resources, MIDA
SENAGRA	The Agricultural Extension Service, MIDA
UNDP	The United Nations Development Programme
WORLD BANK	The International Bank for Reconstruction and Development

#### ACKNOWLEDGMENTS

It would not have been possible to understand and evaluate many of the agricultural institutions of Panama in less than a month, even at this relatively superficial level, without a lot of help from many people. I particularly appreciate the efforts of the DNPS, whose Director is Ing. Juan Jose Franco. The Sub-Director, Lic. Zunilda C. de Bonilla, the Coordinator, Dr. Juan Ernesto Mojica, and several Department heads (especially Lic. Leovigildo Otero, Lic. Carlos Palacios, Prof. Jose Loaiza, and members of the DNPS and MIDA staff, in Panama City and in Santiago de Veraguas, assembled information on the DNPS and other agricultural sector agencies, and made their own evaluations of the problems, needs, and alternative ways in which these problems might be solved.

Ing. Roberto Barragan, Vice-Minister of Agriculture, gave thoughtful feedback on our preliminary report, with concrete suggestions that will improve its usefulness. Prof. Alvaro Miranda, Director of the MIDA Regional Office in David, and Specialists on his staff helped explain the problems of applying agricultural policy decisions at the Regional level, despite severe limitations on budget resources. Directors or senior staff members at the BDA, IDIAP, MIDA, and MIPPE were helpful in many ways, as were Dr. D. Gale Rozell, Dr. Robin C. Zeitz, Mr. Armando Espinoza, Mr. Juan Belt, Mr. Thomas Cox, and other members of the U. S. A. I. D. Mission in Panama, as well as Dr. James Riordan, Dr. Rafael Díez, and Mr. James French, fellow members of the Abt Associates, Inc. team working with the Mission on the Project design. This study drew on various earlier consultants' reports, and especially on those by Shearer (March, 1983), Arcia (March, 1983) and Bernal and Warnken (December 1981), as well as the multi-volume study by IICA on Strengthening Agricultural Sector Institutions.

The design of this project must necessarily be synchronized carefully with the efforts supported by the World Bank. Throughout our visit, we enjoyed close informal working relations with members of the World Bank Technical Assistance Loan (TAL) team, and especially with Drs. Roberto Arizu (MAC) and Duty Greene (University of Minnesota).

Finally, we are grateful to Ing. Ezequiel Rodriguez and other private sector spokesmen, for their own views on the formulation and implementation of agricultural policies in the past and in the future, and on the impact that alternative election results might have on the viability of specific proposals for improving agricultural policymaking.

## INTRODUCTION

Institutions are those social organizations and customs by which humans set goals, resolve conflicts, and--among other things--get their policy decisions carried out. This consultant was asked to review and assess existing mechanisms for setting and implementing Panama's public sector agricultural policies. The specific tasks assigned (see Appendix A, "Consultant's Scope of Work") include the evaluation of key actors in supporting policy formulation, and the evaluation of the degree to which present institutional arrangements support agricultural policy analysis.

The consultant was also asked to assess the degree to which policy makers and managers understand how to use a policy analysis unit, and to recommend appropriate institutional changes to improve performance in setting and carrying out agricultural policy. Finally, the consultant was asked to outline technical assistance and other support that USAID and the GOP might provide, to strengthen policy formulation capacity. (Dr. Rafael Diez is providing similar recommendations for increasing the GOP's managerial ability to implement policies effectively.)

This consultant arrived in Panama on March 8; other members of the Project Paper team, including senior staff of the Sectoral Planning Office (DNPS), had already been working on the Project for some weeks. Prior commitments forced this consultant to leave Panama on March 24, together with the other consultants, so certain followup tasks and writing of this Consultant's Final Report were completed in Madison, Wisconsin, between March 25 and March 31. However, substantial parts of the analysis were written for and included in the draft Project Paper before the Consultant left Panama.

This Final Report begins with an analysis of existing institutions for establishing and implementing public sector agricultural policies, presents and evaluates alternative ways to improve them, and ends with specific recommendations. It concludes that the DNPS is the appropriate focus of Project activities, and that technical assistance and other support of the type recommended in the Project design is likely to achieve significant improvement in Panama's ability to formulate and carry out policies leading to higher growth rates, improved trade balances, higher employment and lower government deficits.

## II. INSTITUTIONAL ANALYSIS OF THE PUBLIC AGRICULTURAL SECTOR

Panama's public agricultural sector institutions are a curious set of organizations, presided over and tenuously held together by the Minister of Agricultural and Livestock Development. First, there is the Ministry itself. Most of MIDA's 4500 employees are divided between the offices of the Ministry in Santiago and Panama City, with the rest in regional offices and local agencies. Of these MIDA employees, we were told that only about 20% are professionals with some training in production matters, while about 80% are administrative, staff and support personnel.

The GOP has also created various autonomous agencies, semi-fiscal or parastatal enterprises that make agricultural loans, do custom farm machinery work, buy and sell food, market certified seeds, do agricultural science research, and so forth. Each of these has its own budget, for which it negotiates directly with the MIPPE. The Minister of Agriculture is by law supposed to orient and guide the entire sector. He presides ex officio over the agencies' Boards of Directors, but cannot hire and fire agency Directors. They are appointed by and serve at the pleasure of the President of the Republic--just like the Minister.

In recent years, each of these agencies has allocated resources and as it saw fit, applying policies which seldom reinforced each other. In part, this reflected weakness in the Sectoral Planning Office (DNPS), which has not carried out its assigned coordinating role very well. And in part the confusion simply reflected the different ideas of agency directors as to what Panama's agriculture needs. In addition, neither the Minister nor any of the Directors receive competent economic

analyses as a basis for setting policies and priorities. The result is incoherence in GOP policies affecting the agricultural sector, and at times direct conflicts among the agencies.

Some Examples:

For example, ENDEMA owes money to the BDA, and the loan is overdue. MIPPE will not increase ENDEMA's budget by enough to repay the BDA. ENDEMA doesn't make enough profit on current operations to repay, and it is unwilling to reduce current operations by enough to repay the BDA out of ENDEMA's 1984 budget. However, the BDA wants the money now, to improve its collection record and also to carry out its own program.

Thus when the BDA makes a production loan to a small farmer, the BDA holds back part of the money for tractor services and applies it to the debt owed by ENDEMA to the BDA. That would be fine, provided ENDEMA had other resources with which to pay for drivers, mechanics, fuel and spare parts. It does not. ENDEMA expects customer payments to cover these, so when the BDA holds back part of the production loan, ENDEMA comes up short in its current operations. Naturally, as we were told in the Bank itself, ENDEMA has told customers that it can only work for cash, and not for BDA vouchers.

(I do not know whether the problem is inefficiency at ENDEMA, prices too low to cover the cost of machinery services even if they were performed efficiently, or what. But clearly there is a past due debt for which neither ENDEMA nor the BDA has made provision. Collection by withholding at BDA will force ENDEMA to cut services somewhere, which may be at the expense of BDA borrowers among ENDEMA's customers. MAC is supposed to analyze ENDEMA and the BDA as part of its work under the

World Bank TAL. While its task is to adapt agency programs to the new global strategy, I hope it will also, in passing, recommend solutions for these old problems.)

Another example is the Agricultural Research Institute, IDIAP, which has won considerable prestige for its work. Its own leaders admit that their research does not reflect current GOP priorities well at all. For example, Panama has an oversupply of rice. A huge fiscal subsidy has kept the domestic support price much higher than world market prices. Nonetheless, IDIAP puts more effort into improving rice production than into any other commodity. To its credit, the IDIAP Planning Department recognizes this inappropriate use of resources. It hopes to shift emphasis in future operating plans toward corn and other subsistence crops, and to potential export crops.

We might note, in passing, that IDIAP does not have well-trained agricultural economists on its research staff, as would similar institutes in the USA or the tropical agricultural centers. Its field trials of plant varieties tend to reflect purely technical or plant engineering analyses, but there is little or no consideration of the cost of inputs, of marketing institutions, or other factors that may be decisive in adoption decisions by producers -- or in the actual results that farmers will obtain if they follow IDIAP recommendations.

#### Planning, Follow-Through and Evaluation

Inside the Ministry and each agency, there are some individuals who are in charge of planning. There is an annual budget proposal, based on an annual operating plan, which is developed within each agency. The budget requests generally add up to substantial increases over current levels, and some of the agencies make serious efforts to justify the

proposed increases. Unfortunately, the overall fiscal situation of the GOP is very tight. In addition, the present budget process does not make it easy to respond positively even to requested increases that are very well justified. Instead, each agency usually gets an amount that is based more on the previous year's level than on anything else.

Someone at MIPPE, generally an accountant by training, routinely scrutinizes the requests. Within the overall agency budget limit set by MIPPE, a few salary changes are approved, when they are well-justified, typically when the employee earned a post-graduate degree and assumed new, greater responsibilities. There is no general provision for staff evaluation and merit pay adjustments each year.

Neither the agency nor the MIPPE reviewer seems to be qualified to evaluate seriously any proposed changes that would increase the budget by enough to require reducing the budget of another agency, or to require finding a new revenue source. Nor do any of the agencies appear to have suggested new revenues themselves--either as charges for services rendered or as taxes they could help implement. ( E. g., a genuine land tax instead of the nominal one now in place.)

Although there is awareness of the need to evaluate the effectiveness of programs, there is little effort in fact to do this, or to redesign programs that are not functioning well. Dr. Rafael Diez will refer to this problem more extensively in his own Report.

Policy Implementation:

Once the budget is returned to the Ministry and the agencies, one would expect a re-programming of operating plans in order to adjust planned activity to the level that could be sustained by the actual budget as approved. However, we were unable to find any cases in which

this had been done. Instead, especially at the MIDA in Santiago, some employees appear to lack both clearly defined tasks and resources (such as supplies, vehicles and per diem allowances) with which to work.

Staff salaries appear to be paid faithfully, for those who are in "slots" approved in the annual budget, and those pay checks are prepared by the Contraloria General, rather than in MIDA. However, supplies are almost always scarce. The failure to cut staff and work plans to fit the resources available leads to real morale problems and low productivity, particularly for the MIDA staff who are supposed to go to the field and work directly with producers.

Expense advances requested for trips to the field are reportedly seldom actually disbursed until long after the trip was supposed to have been made. Most of the staff are not independently wealthy, so they simply put off the trip until the expense advance finally comes through. Gasoline allotments fall far short of those needed to the level of field work originally planned; a few dedicated senior staff simply provide their own vehicles and buy their own gas, but most cannot afford this.

Yet nowhere did we find an effort to reduce the staff to the number that could be provided with supplies, per diems, gasoline and vehicles. Nor could we find any confidence that if the staff were reduced, even by attrition, the funds no longer paid in salaries would actually be made available to support the remaining staff in field work.

#### Special Commissions.

Partly because the enormous Ministry and the autonomous agencies are not coordinated effectively, the GOP has long had the custom of appointing ad hoc Commissions representing public sector agencies and private sector producers, to thrash out issues such as support prices,

price control ceilings, and import and export policies. With DNPS's help, we found a total of 32 such Commissions currently in existence, each looking at one crop or one agricultural policy, and none looking at the sector or the national economy as a whole.

The Commissions provide a forum of sorts for arguing about possible policies. If a consensus emerges, a subcommittee writes a report and Commission members sign and deliver it to the Minister of Agriculture. The Minister then makes a decision on minor matters, and on more important issues, takes it to the Economic Cabinet, which decides--not necessarily approving the recommendation of the Commission. This is fortunate, since the Commissions tend to obtain consensus mainly by protecting the private interests and agency turfs of everyone taking part, at the expense of consumers and anyone else not taking part (such as small farmers).

A 1984 Example: The Rice Commission:

For example, in March, 1984, the Rice Commission recommended against reducing the support price, now far above world market levels. The resulting rice surplus is a burden on IMA, which buys it and then exports it at a huge loss, covered in part by overcharging consumers for other essential foods that IMA imports. Instead of recommending lower support prices, perhaps still high enough to ensure national rice self-sufficiency, the Commission recommends that the Government cutting the embarrassing surpluses by imposing acreage controls. This would clearly fly in the face of the recent GOP decisions to deregulate the sector. Experience elsewhere also allows room for great doubt whether acreage control would even work, let alone justify the use of scarce public sector administrative talent to try to create and enforce them.

Perhaps because small farmers were not effectively represented on the Commission, the Report even recommends that no acreage allotments be given to producers who have previously planted fewer than 20 hectares of rice. The subsidy would thus go only to the medium and large growers. The Recommendations neglect to explain why subsidies are needed at all, or why Panama should produce twice as much rice as it consumes, if it cannot produce rice profitably at world prices.

Onions: A Positive Example of sorts:

There are success stories to be found in the Commission efforts; for example, the Onion Commission played a role in getting some producers to plant onions at non-traditional times so that they would mature at equally non-traditional times. That makes it possible to reduce onion imports considerably, yet it was done at price levels that do not abuse consumers nor produce great surpluses of onions. The Commission also brought out the need to try other varieties for different maturity dates, and to increase suitable storage facilities.

Nonetheless, the Commissions are not a substitute for competent technical staff work as an underpinning for policy decisions. For example, most of the recent Commission policy papers examined show no awareness of the price elasticity of demand and supply. The rice study fails to analyze the reduction in oversupply that would come from various levels of reduction in support prices. Nor did it discuss which producers would be forced out of rice production, if the rice support price were to be cut toward world market levels, nor what alternative crops would be grown on that land, nor the impact that those increased crops would then have on the supply and demand for the other products.

In short, the effective decision-makers do not have adequate staff support. What studies they do get have come either from parties with vested interests or from a Ministry that has little field contact with what is really happening in agriculture. A Commission combines the views of these groups and produces a Report, but the samples reviewed show that it does not produce sound economic policy analyses.

The DNPS staff of nearly 80 professionals is probably larger than is necessary for the work to be ahead, but most have only the local equivalent of a 4-year college degree in economics. The staff themselves are quick to agree that they are not adequately trained for their present tasks, let alone for policy analysis.

A review of DNPS production shows that some current effort goes into the collection of data with which to build a Linear Programming Model of the Panamanian Agricultural Sector. This would let planners say how much land "should" be sown to each crop for optimum land use, if the entire country were one big state farm. The Regional Planning Department of the DNPS hopes later to disaggregate this model to the level of each region. It is difficult to see how the building of such a model will do anything very useful in and of itself. However, the Chief of that Department suggests that the production cost data gathered as raw material for the model will be useful as inputs for other studies, on price supports or tariff protection. We agree, and suggest that the gathering of reliable, solid data from the field is badly needed, even without the "excuse" that it is needed to construct an elegant but largely useless economic model.

A handful of competent individuals at the DNPS work very hard to turn out specific policy analyses quickly. Unfortunately, they get no support in either career prospects or salary, and little competent peer review of their work. This Project aims to address both problems.

Unfortunately, as indicated elsewhere, the present studies are often seriously inadequate. Important questions are not even asked, and appropriate policy alternatives are not even considered. This can be remedied in large measure through training, on and off the job.

In general, salaries are set when staff members are first hired, and there is no arrangement for periodic review and increases to reward competence and effort. DNPS and MIDA staff agreed that the only way to get a raise is to persuade the Minister of Agriculture to grant it, personally or through one's superior. Those who do not beseech do not obtain raises. While not uncommon in Latin America, this institutional arrangement wastes a lot of time for both Minister and petitioners. This time and energy would be spent better if it were used in policy analysis and reflection on proposed alternatives.

While the Directorate is barely able to begin performing its job now, this Project focuses directly on its weaknesses. It contemplates a partial reorganization of the DNPS, and the creation of a clear career pattern, with salary ranges, periodic evaluation by superiors, and salary increases for superior performance. Persons not receiving "acceptable" evaluations twice in a row would be expected to resign.

As matters stand, whenever a DNPS staff member gets experience and postgraduate training, he is often lured away to the private sector. If salaries cannot be rationalized and increased throughout the public sector, then at least something should be done at DNPS, since a more modest program for just that Directorate could be approved at the level of the Minister as a "pilot project."

No one is specifically in charge of handling Ministerial requests for information and policy analysis. Though frequent, they are handled on an ad hoc basis, routed to whoever appears to be free. There is no sense that there will always be such requests. No staff are assigned to

handling such requests. In practice, in Panama as elsewhere, there are always requests of this sort by a Minister, and therefore it would be appropriate to assign some staff to specialize in handling these requests.

The present ad hoc handling of such requests does indeed look like "putting out fires," and those who do this work cannot get their main tasks done. However, a separate "policy analysis staff" could do both careful, reasoned, well-documented analyses of policy problems the government needs to face in the future, and also supply quick response support on policy issues that the political leaders are ready to address now.

Such a staff can even learn to anticipate the needs of the Minister--from previous requests and even from news bulletins on the radio or in the press. Sometimes it is possible to have an analysis pulled together and on his desk even before the Minister asks for it, though I have known Planning Directors who would wait for a specific request and then produce a well-written report just a few hours after the request, for greater effect. (This is not recommended; it leads the Minister to expect impossible response times on other requests as well.)

Policy Analysis and Other Planning Activities: Mutual Support:

Within planning agencies in many countries, the highest status job is usually the formulation of a multiyear plan. Yet the opportunity to obtain politically difficult policy decisions arises infrequently, is seldom there very long, and hardly ever coincides with a calendar year. Therefore, in terms of credibility and usefulness to a government, timely response to questions that arise almost randomly through the year, is the work most appreciated by political decisionmakers. This

response is therefore the key to eventually obtaining adequate budget resources, salary adjustments, per diems paid or time, and whatever else the planning office needs to function effectively.

Policy analyses are not just things of beauty, to be admired in themselves. Their value resides solely in their use by governments as the basis for making sound policy decisions. In any democratic government, there are only occasional "windows of opportunity" in which transitory political combinations and public support make it possible to make difficult policy decisions and to implement them. It is vital that the government be able to obtain solid analyses of policy options when they are needed, and this is seldom on a calendar year basis as with budgets and annual operating plans.

For the good of the country, and for the good of the planning agency itself, therefore, it is recommended that the DNPS create a policy analysis unit, for whose staff one principal task is to prepare quick and professional responses to information and policy analysis requests from the Minister. Creation of such a unit will never eliminate the late-hours and weekend work required to deal with some requests properly, but it will at least make it possible to do such work professionally.

When not working on ministerial requests, the staff of this unit should work on data gathering and analysis of problems which are likely to appear as requests in the near future. They should also, of course, be responsible for the policy analysis portions of the annual, multiyear and regional operating and investment plans, reinforcing the staff of the Departments responsible for producing those products.

### 3. ALTERNATIVE SOLUTIONS TO THE PROBLEMS FOUND

The general ineffectiveness in policy implementation will be dealt with in a parallel Project Component, and in a Consultant's Report by Dr. Rafael Díez, while some of the most serious data problems will be covered by Mr. James French. In this report, we focus on Panama's present lack of qualified persons capable of analyzing agricultural policy problems and formulating alternative policy choices by which decision-makers could address those problems.

Basically, there are only three ways Panama can resolve this lack. Consultants can be imported to do the studies, qualified Panamanians can be identified and recruited to do them, or qualified Panamanians can be trained and provided an appropriate institutional setting in which to do the work.

The first approach is essentially what is being done right now, under the World Bank's Technical Assistance Loan. Foreign consultants have been hired to conduct studies of price policies and various other topics, including the mandates and operations of the autonomous agencies. In a second phase, foreign consultants will be hired to advise on implementing the recommendations made in the first phase. This approach brings in qualified persons, and they make the best study they can with the data already available, in the limited time allocated for these contracts. Panamanians participate as counterparts and assistants, but the specific study is the product and training is only

a secondary aspect, or by-product, of the process of making these studies

The second alternative would search for Panamanians now working in or outside Panama, competent to do policy analyses, and recruit them to work in Panama as a permanent policy analysis team. There are a few well-trained and highly-regarded Panamanian economists, who work for international organizations. They might well be sent to other countries as consultants or members of World Bank and IMF teams. However, they are earning salaries well above anything that the GOP is likely to be able to pay anytime soon, though not more than is being paid to the consultants being brought in to do the first batch of studies. It is extremely unlikely that enough of these Panamanians can be recruited and persuaded to accept full-time positions at salaries the GOP can afford to pay, to form an Agricultural Policy Analysis Unit.

The third alternative would look for qualified staff economists in Panama, and train them in economics at the post-graduate level, until they were able to design and carry out competent policy analysis studies themselves. This approach has the obvious advantage of creating a permanent capacity able to handle most of the needed analyses, and well-familiar with the data, institutions, and history associated with each problem to be analyzed. If such staff analysts could be insulated from partisan, commercial or family pressures, not always easy in a country with only two million inhabitants, their work should be superior to that done by short-term foreign consultants, and less expensive as well. Nonetheless, it will not be easy nor quick to locate and train such a staff, and it will be impossible to retain them once trained

unless there are substantial improvements in the salary and other arrangements for their employment.

On balance, this Project Component opts for the third approach, seeking a significant increase in the supply of well-trained economists and attempting to achieve a supportive working environment that will make it possible to retain most of them. .

#### 4. RECOMMENDATIONS: INSTITUTIONAL ARRANGEMENTS

##### a. Possible Alternatives.

If a policy analysis capability is to be created, the logical first questions are "Where?" and "How?" The second question will be addressed in the next section, on Technical Assistance and other Project Inputs. First, however, let us review the alternatives for the location of a Policy Analysis Unit.

The first possibility would be to create an independent unit, outside all existing Ministries. In effect, it would be another autonomous agency in the agricultural sector.

A second possibility would be to create such a unit inside the Ministry of Planning and Economic Policy (MIPPE). On paper, this would not be an unusual arrangement, and its proximity to the Budget process would ensure that its advice was associated with political "clout."

A third possibility would be to create such a unit in the Ministry of Agriculture (MIDA), attached to the Minister as a staff or advisory unit. This would ensure direct lines of communication with the Minister, and through the Minister to the Economic Cabinet (and in the near future, to the Legislature as well).

A fourth possibility would be to create such a unit in the National Directorate for Sectoral Planning (DNPS), either as part of an existing Department or separately but at the level of other Departments.

A fifth possibility would be to create the function but not staff it, telling existing Departments of the DNPS to assign staff as needed to carry out policy analyses, in addition to their other duties.

b. Evaluation of the Alternatives:

The first option, a totally independent Policy Analysis Unit, does not appear to be a viable solution. It could "work" so long as its head had the political confidence of the President, but it would tend to be seen as the instrument of the person or persons heading it, rather than as a regular part of the Government. In turn, the head of such a unit would need to be more politician than economic analyst, to defend the unit itself in the budget process. It would be relatively difficult for such a unit to do an analysis that showed conclusively that the policies which political leaders want to pursue, were bad policies.

The second option, a unit within MIPPE, does not seem to be of any interest to the GOP. MIPPE is no longer as powerful as it was just a few years ago. The Director-General of Economic and Social Planning stated flatly that MIPPE does not have the staff and has no interest in taking on the problem of analyzing agricultural policies in any depth. This does not appear to be an attractive option.

The third option, a unit attached to the office of the Minister of Agriculture, has some merit. Such a relationship would ensure access to the Minister by the analysts, and vice versa. On the other hand, the Minister always has the authority to employ several advisors of his personal confidence, and to work closely with them on the most important

matters. The purpose of creating an Agricultural Policy Analysis Unit is to ensure the creation of a standing capacity to make such analyses, regardless of which person happens to be Minister at any given time. In addition, various interviewees and DNPS Department heads suggested that if the analysis unit were placed at the Ministerial level, it could use its privileged access to dominate and relegate the DNPS to a secondary role.

The fourth option, assigning this unit to a Department within the DNPS, has the merit of giving a stable, clear-cut location to the Policy Analysis Unit within the organization whose mandate includes providing advice to the Minister of Agriculture on economic matters. The Director of the DNPS is formally interposed between the Minister and the Policy Analysis Unit, making it possible that this person look to the appropriate balance between human resources assigned to short, medium and long-run policy studies and to other DNPS tasks.

The fifth option, assigning the function to existing Departments of DNPS without a clear separation of duties among functionaries, has the merit of allowing staff to be assigned at any given time to whatever seems most urgent. It also has the clear disadvantage of lacking clear lines of responsibility if the policy analyses are not competent, or if they are not completed in a timely way.

This fifth option is actually the present arrangement, clearly unsatisfactory. The Minister regularly demands information or comments or analyses of the DNPS, and they tend to be dealt with on a "crash" basis because there is no institutional capacity built and destined specifically to these tasks.

Observers and the senior DNPS staff agree that they often seem to be engaged in "putting out fires." There is nothing wrong with extinguishing fires in a modern society, but there is a big difference between the amateurish work of a volunteer fire company and a modern professional fire department. We see the latter as the more appropriate model for a Policy Analysis Unit.

In conclusion, we recommend that the Policy Analysis Unit\* be located within MIDA, and specifically that it be established at the Department level within the DNPS. There were no interviewees opposed to this, and many gave reasons to favor it.

d. Comment on the recent Reorganization of the Agricultural Sector:

The MIDA has recently implemented a reorganization, under which the technical specialists in the field are henceforth to work under the executive authority of Regional Directors rather than the national Directors for their technical specialty. This arrangement has much to commend it.

At the same time, the Sectoral Planning Office has been told that it must "coordinate" the planning offices within each of the autonomous agencies, to put an end to the present tendency to work at cross purposes. Basically, the National Directorate for Sectoral Planning, while nominally part only of MIDA, is to issue normative guidelines to all of the planners, who in turn are responsible for interpreting them to their respective agencies and seeing that budgets and operating plans

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\* Other suggested names: Policy Analysis and Studies Unit, Economic Studies and Policy Analysis Unit, Current Economic Studies Unit -- a poor translation of Estudios Conyunturales.)

are consistent with these norms. There will likely be a similar need for "coordination," though not hierarchical lines of command, from the DNPS to the planners assigned to the major regional offices of MIDA.

This approach is sound, and should be strengthened as the DNPS grows in its own competence and self-confidence. Meanwhile, planners attached to JDIAP and the BAP stated that they accept the sectoral approach and welcome the collegial guidance from DNPS in their own work.

We do not recommend any further change in this reorganization, other than the creation of the Policy Analysis Unit within DNPS. What matters is that there be a unit that can and does give the Minister, and through him the GOP, competent economic analyses and policy alternatives among which to choose, on a timely basis rather than as part of the next year's Annual Operating Plan or another major document.

5. RECOMMENDATIONS AND INSTITUTIONAL ARRANGEMENTS:

Much of the material written on this subject has also been incorporated in the draft Project Paper. For example, the following language was suggested:

ii. Response to the Problem

- a. Creation of Agricultural Policy Analysis Unit in the National Directorate of Sectoral Planning (DNPS) of the Ministry of Agricultural Development (MIDA)

The Government of Panama, spokesman for the private sector, and the Mission are all persuaded that the revitalization of Panama's agriculture depends critically on the ability of the government to set sound agricultural policies, with clear market-oriented "rules of the game" and appropriate price incentives.

In addition, the size of Panama's external debt forces the GOP to pursue increased exports, pushing producers toward being efficient enough to compete on world markets. At the same time, the World Bank TAL Document states that the GOP and the private sector appear to agree that tax burdens are as high as they can go prudently (at about 20% of GNP), so the only way to deal with the fiscal budget deficit is to cut public sector expenditure.

Many of the more attractive targets for expenditure cuts are in the agricultural sector agencies. The state-owned sugar corporation runs an annual deficit of \$37 million, largely to pay off past investment credit. This is more than half of the deficits of all the state enterprises taken together. The state food marketing agency, IMA, needs as much as US\$2 million in subsidies to pay high support prices to rice growers and then sell the resulting rice surplus abroad, for less markets.

The GOP pays both state and private banks a 3% subsidy on agricultural loans, so that the lender gets 12% interest, though the borrower only pays 9%. The state-owned farm machinery services company is deeply in debt to the agricultural bank, which in turn says a lack of money sometimes causes it to disburse loans too late for planting. Clearly, there is a real lack of coordination and planning, but the high-level decision-makers who laid down the new, market-oriented guidelines for Panama's economy do not have the time, staff or expertise to design the detailed policies to implement the new strategy.

In the short run, World Bank TAL/SAL consultants (MAC/Minnesota) will help advise the Ministry and the autonomous agricultural sector agencies on a strategy to implement the new policy guidelines in each

agency's operations. The role of this USAID project is to help create and institutionalize Panamanian capacity, so the DNPS itself can help design and implement appropriate policies in the future.

In focusing on the creation of a Policy Analysis Unit within the DNPS, the Mission has been influenced both by previous consultant studies in Panama, and the recent regionwide evaluation of agricultural sector planning activities.\*

One key of that evaluation is that if policy analysis and planning projects are to be effective, attention must be given to the demand for information and analysis by decision-makers. The evaluation concludes that a lack of demand has been the central constraint to effective agricultural sector planning in the past, and suggests that AID-supported activities be geared explicitly to the generation of demand for such services. As a result of the macroeconomic crisis in Panama, there is considerable demand for information and analysis right now, and this should facilitate implementation of this Project. Also, the Project is designed consciously to stimulate additional demand in the future, by providing a superior service.

(At this point, I inserted 8 paragraphs from a recent Peru Project Paper, summarizing AID's experience with planning agencies in Latin America.) Suggested language for the Panamanian Project Paper continues:

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\* Riordan, James T., "Evaluation of Agricultural Sector Planning Activities in Latin America and the Caribbean, Final Report," Abt Associates, Inc., Cambridge, Massachusetts, June 1982.

iii. Institutional Arrangements

The Project will support the creation of an Agricultural Policy Analysis Unit within the National Directorate of Sectoral Planning, DNPS. This Unit will in effect be the staff support to the Minister of Agriculture, and through the Minister, to the Economic Cabinet of Panama. The Unit will respond directly to requests for short-term analytical assistance of the Vice-Minister, other National Directorates, and other staff offices as directed by the Director of DNPS. It will draw on other MIDA and DNPS Directorates as needed, just as those units will receive help on policy analysis in their own work.

The Agricultural Policy Analysis Unit itself will be relatively small in the total staff of the DNPS (about 10 professionals, out of some 80). Some of the early work will be done by resident and short-term consultants, but by the end of the Project all of the professionals should be Panamanians, trained at least to the M.S. level, and about half should be well along toward the Ph.D.

a. Work of the Agricultural Policy Analysis Unit:

The Agricultural Policy Analysis Unit staff will be working simultaneously on several levels at any given time. Requests from the Minister or the Economic Cabinet for policy studies for immediate application will normally have the highest priority, followed by other short-term needs of other DNPS and MIDA units. The remaining available time will go into medium and longer-term studies of specific policy questions that DNPS and the Unit itself have identified as priority issues of importance in coming years. Naturally, these latter outputs will normally be published as they are completed, but in many cases they

may become parts of another document of the DNPS, such as a strategy study or an indicative plan for the next two or three years.

b. Definition of "Agricultural Policy":

The Agricultural Policy Analysis Unit will provide needed advisory services to the Minister of Agricultural and Livestock Development on matters of agricultural policy. For present purposes, "agricultural policy" includes all economic policies that bear on the performance of the agricultural and livestock sector. It is not limited to those policies within the preview of the Ministry and the autonomous agencies of the Sector, such as support prices, interest rates on Agricultural Development Bank loans, and rates for agricultural machinery services.

Rather, the concept also includes policies in other sectors that have significant effects on agriculture, such as taxes, incentive laws, protective tariffs and nontariff barriers, restrictions on exports, minimum wage and other labor laws, consumer price controls, etc. For this reason, the Unit will be expected to maintain close if informal liason with the Ministry of Planning and Economic Policy (MIPPE) and the other ministries represented in the Economic Cabinet.

c. Documertation and Evaluation of Unit Production:

To document the usefulness of the Agricultural Policy Analysis Unit's responses to requests, a Log should be maintained by the Unit. Each request should be recorded with information on the person (and office) requesting a service, form of the request (phone, letter, etc.), date received, a two or three-line summary of the request, staff person assigned to deal with it, date on which the Unit replied, a few lines with the gist of the reply, and notes as to any feedback, comments or action which came of it. The information in this Log should be

tabulated, summarized and included in a periodic report to the DNPS Director.

The Director of the DNPS, together with any resident advisors to the Policy Analysis Unit financed by USAID, would report to AID by letter at least once a year. They would describe the highlights of this short-term response activity, with their own evaluative comments on its usefulness. To help USAID design future grants of this sort for other countries, these letter reports would include an estimate of the role that Unit responses appear to have played in actual policy decision and in the subsequent implementation of those decisions.

d. Coordination Mechanism:

The GOP has set up several institutional mechanisms to attempt to coordinate action of the public agricultural sector, and to provide a more efficient means whereby the private agricultural sector can take part in the discussion of policies before final decisions are made. The mechanism that brings together representatives of the public sector agencies seems to be working reasonably well; this mechanism will probably be scrutinized more closely by the MAC/Minnesota team in the World Bank's SAL/TAL project.

However, on the eve of the national elections the other mechanisms, which include private sector representatives, are regarded as political and are not in fact operating. This seems to apply at both the national and the regional levels. After the government elected in May, 1984 has taken office (in October 1984), it will undoubtedly establish new mechanisms similar to those now existing on paper. This Project also includes a component specifically aimed at improving the private sector's own ability to analyze public agricultural policies and hence, to take part in the debates.

iv. Outputs

The Agricultural Policy Analysis Unit will produce three broad classes of outputs:

a. Brief memoranda to the Minister, Vice-Minister, National or Regional Directorates and other DNPS and MIDA staff offices. These will typically be responses to immediate, pressing issues, and replies will stress relevant facts, policy options, and the implications of each possible policy decision for other key issues of policy and strategy. Typical examples might have to do with support prices for rice, producer demands for specific changes in tariffs for agricultural inputs and products, or interest rates for agricultural production loans.

b. Reports of medium and longer-range policy studies. These will usually be published widely for discussion and reflection in both the public and the private sectors. In at least some cases, they may be researched and published jointly with MIPPE or other entities of the public or private sectors. One possible example would be a careful review of protective tariffs and non-tariff barriers applied to agricultural products, with a view to reflecting the market-oriented strategy announced by the GOP. (Such a study would build, for the agricultural sector, on some of the AID-funded work now being done at MIPPE on trade questions, as well as on the studies being prepared by the University of Minnesota under the World Bank Technical Assistance Loan.)

c. Policy analyses that are part of other work by the DNPS and MIDA, and that appear as part of Annual Operating Programs, Annual

Reports, and Indicative Development Plans or Strategy documents looking ahead several years in Panama's development. One likely example would be a study analyzing the cost of various options in dealing with the high-cost state-owned sugar complexes. Decision must be made soon, and will have to be reflected in annual budgets and public sector investment decisions. Other entities will specify some of the technical alternatives, but the Agricultural Policy Analysis Unit would be responsible for some of the economic questions, such as projection of world sugar market prices, the alternative employment options for redundant employees, the opportunity cost of land and equipment used for sugar production, the choice of discount rates, and the internal rate of return required to justify capital investments.

b. RECOMMENDATION: TECHNICAL ASSISTANCE, ETC.

The following language was suggested for inputs for this Component:

v. Inputs (Policy Analysis)

<u>Item</u>	<u>Years:</u>	1	2	3	4	5	<u>Totals</u>
1. Resident Policy Analysts							
a. Senior Economist (person months)		6	12	12	12	6	48
b. Second Economist ( " " )		12	12	12	12	0	48
2. Short Term Consultants ( " " )							
a. Hired by the Project		6	10	6	-	-	22
b. Hired by the Policy Analysis Fund		-	-	6	8	6	20
3. Training Program							
a. Courses in Panama (course mos.)		2	2	4	4	2	14
b. No. of trainees starting training abroad each year:							
1) Toward M.S. degrees		3	4	2			9
2) Toward Ph.D. degrees			1	1	1	1	4
(after getting M.S.)							
c. No. of Persons abroad each year		3	8	8	4	2	
(M.S. 2 yrs, Ph.D. 2 yrs more)							
d. No. of Person-mos. abroad		30	80	80	40	20	250
(2 mos/yr working in DNPS)							
4. Other Project Elements							
a. Project vehicle			1				
b. Microcomputer			1				
c. Word processor for rapid response		1					
d. Supplies not available locally		x	x	x	x	x	

e. In-country travel (p/day)	100	100	150	150	150	700
(GOP contribution:	10%	15%	20%	25%	30%	
f. Journal subscriptions, etc.	x	x	x	x	x	
g. Publication expenses	x	x	x	x	x	
h. Salary Supplements/Overtime pay (mainly for bilingual staff)	x	x	x	x	x	

<u>Component Budget</u>	<u>Years:</u>					<u>Totals</u>
	1	2	3	4	5	
(AID Share, thousands of dollars)						
1. Resident Policy Analysis						
a. Senior (100/yr)	50	100	100	100	50	400
b. Junior (70/yr)	70	70	70	70	0	280
2. Short term consultants (10/p.m.)	60	100	60			320
Aid Share of Ag. Policy Analysis Fund (declining share)			45	56	36	137
3. Training Program						
a. Courses in Panama (5/course/mo.)	10	10	20	20	10	70
b. Trainees abroad (1.7/mo. abroad) Plus extra round trips, w/family	51	136	136	68	34	425
4. Other Component Elements						
a. Project vehicle	10					10
b. Microcomputer	10					10
c. Word processor	2					2
d. Supplies not avail. locally	2	2	2	2	2	10
e. In-country travel (avg. \$47/day) (AID share, declining, rounded off)	4	6	6	5	5	26
f. Journal subscriptions, books, etc.	0.5	0.5	0.5	0.3	0.2	2
g. Publication of studies	0.5	1.5	1.5	1.5	2	7
h. Salary Supplement/Overtime Pay	<u>2.4</u>	<u>4.8</u>	<u>4.8</u>	<u>2.4</u>	<u>2</u>	<u>16</u>
Total, AID Contribution (000)	\$272	431	446	325	141	\$1,615

GOP SHARE OF PROJECT BUDGET (THIS COMPONENT) (thousands of Balboas)

<u>Item</u>	<u>Years:</u>	1	2	3	4	5	<u>Totals</u>
1. DNPS Personnel							
a. Senior (Lic. + M.S. + exp.)		1	1	4	5	6	
c. Junior (Lic. only)		6	6	4	2	2	

(It is assumed that in years 4 and 5 a few of those returning with M.S. degrees will be "lost" to other posts in DNPS or other Sector agencies or to the private sector, but the permanent level of "slots" for this unit will be 10, divided as shown in year 5 of the project. Includes salaries for those currently studying abroad.

<u>Item</u>	<u>Years:</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Totals</u>
Estimated Salaries and Benefits							
a. Senior (2/month)		24	24	96	120	144	408
b. Middle (1.2/month)		14	43	43	29	14	143
c. Junior (0.83/month)		<u>60</u>	<u>60</u>	<u>40</u>	<u>20</u>	<u>20</u>	<u>200</u>
Sub-Totals	B.	98	127	179	169	178	751

(This assumes some improvement in pay at the more senior levels, over present practices in MIDA. It is not a large item until later years.)

2. GOP Share of Short-Term Consultants							
(Agricultural Policy Analysis Fund):		-	-	15	24	24	63
(As % of total APAF each year):		-	-	(25%)	(30%)	(40%)	-
3. Office Space (est. B.2,000/month)		24	24	24	24	24	120
4. Office Furniture (est. B.800/person)		8	-	-	1	1	10
5. Office Supplies (est. B.2,000/yr)		2	2	2	2	2	10
6. Secretaries (2), driver		20	20	20	20	20	100
7. Typewriters (3) in yr. 1, (1) in yr.4		3	-	-	1	-	4
8. GOP Share of field work per diems		0.5	1.1	1.5	1.8	2.1	7
9. GOP Share of journals, books, etc.		<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.4</u>	<u>0.4</u>	<u>1</u>
TOTALS (Balboas 000)		156	174	242	243	251	1,066

TOTAL COMPONENT BUDGET, PLUS INFLATION ADJUSTMENT

<u>Source</u>	<u>Years</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Totals</u>
USAID Contribution		\$272	431	446	325	141	\$1,615
GOP Contribution		<u>156</u>	<u>174</u>	<u>242</u>	<u>243</u>	<u>251</u>	<u>1,066</u>
Totals (000)		\$428	\$605	\$688	\$568	\$392	\$2,681

Now, assume a 7% annual

rate of inflation. Factor:      1.00   1.07   1.14   1.23   1.31   --

All costs are affected except  
those in year 1.

This adds (totals):              \$ 0   \$42   \$96   \$131   \$121   \$ 390

TOTALS, WITH INFLATION              \$428   \$647   \$784   699   \$514   \$3,072

USAID Contribution	\$272	\$461	\$508	\$400	\$185	\$1,826
GOP Contribution	<u>156</u>	<u>186</u>	<u>276</u>	<u>299</u>	<u>329</u>	<u>1,246</u>
Totals (000)	\$428	\$647	\$784	\$699	\$514	\$3,072

NOTES TO INPUT BUDGET ITEMS

1. It is assumed that the project begins not later than Oct. 1, 1984. Note that the exposition shows first the physical quantities--person-months, etc., and then a second table indicates the dollar amounts. Note also that a general inflation provision appears at the end of the tables.
2. Resident Policy Analysts: It is assumed that one of the resident advisors is recruited and installed in Panama by October 1, and the second arrives six months later. Likewise, as the project winds down in the fifth year, one leaves at midyear (i.e., May) and the other stays until year-end. For budget purposes, it is also assumed that there are perhaps four persons, each serving approximately two years, as it seems unlikely that well-qualified individuals will agree to serve for four consecutive years.
3. Stipends and fringe benefits: This Component requires resident advisors who are economists of sufficient experience and stature (see Appendix) that they can command international organization salaries and fringe benefits. That translates to salaries, medical insurance, contribution to a retirement plan, relocation allowances, school allowances for dependents, home leave, packing and shipping costs and duty-free import arrangements for personal and household effects and a car for family use. Assuming that these advisors will have duty-free import arrangements as a result of their association with an AID project, the rest of the package will cost approximately \$100,000/year for the more

senior advisor, and \$70,000/year for the less senior advisor. If the Project is required to pay import duties on car, personal and household effects, this budget item will need to be increased approximately \$10,000 for each two-year advisor term, or \$40,000 overall.

4. Short-term Consultants: This component will begin with consultants hired directly by the Project. However, as the DNPS staff gains in experience and as the Project reaches mid-point, short-term consultants will begin to be hired by the DNPS with an Agricultural Policy Analysis Fund, to which AID will make descending contributions and the GOP will make contributions that rise from 25% in the first year (year 3 of the Project) to 40% by year 5. It is expected that as trained Panamanians return from abroad, the need for short-term consultants will decrease. The Fund should be able to operate after the end of this Project with about the \$24,000/year which GOP contributes in Project Year 5.

A total of 42 person-months of consultants are contemplated. In addition, any savings or overruns in the Resident Advisor line item as a result of the contract terms necessary to hire specific advisors, will be added to or subtracted from the AID contribution for consultants.

It is assumed that consultants are employed directly by the Project or by AID or that a contractor with relatively low overhead is used for the purpose; on that basis, an average of \$10,000/person/month should suffice to pay honoraria, travel, and per-diem for periods of two weeks to two months. If the overhead is above about 10%, then this item needs to be raised. The consultants may be Panamanians or expatriates. It appears that Panamanian consultants of the calibre needed are not significantly less expensive, except for travel and per-diem.

5. Training Program in Panama: The Project should begin with a short-course conducted in Panama. This course, probably of three or four weeks, would help prepare those already selected for study abroad, for the rigorous pace of graduate study. It would include frequent quizzes and a writing project, which would be graded. It should be announced from the start that participation in this course is a privilege, for which DNPS staff should apply, that grades will be given, and that they would be considered in the selection process for staff to be trained abroad. The evaluation results would also become part of the staff member's personnel file, and eventually should bear on salary and promotion.

The subject for the first course should be chosen according to the priorities of the GOP, but one suitable topic would be the Evaluation of Investment Proposals. Obviously, this would merely begin to cover the topic, but it would go far enough to set the "tone" for what is hoped will be objective, rational decision-making in policy matters.

In addition to the usual treatment of cost projections, discount rates, price forecasting, etc., some time should be devoted to the cost of obtaining investment funds. That is, a review of the sources of external and internal finance, including the indirect and compliance costs associated with taxes and the macroeconomic problems stemming from excessive borrowing, at home and abroad.

Another topic suitable for an early Course would be agricultural price policies. However, it is assumed that there will be a Seminar or Conference about October, 1984, organized by the Minnesota/World Bank team for discussion in depth of the studies conducted this year, and this topic will thus have been covered fairly thoroughly.

It is suggested that two short courses of four weeks each be mounted in each of the first two years, and that as the Project reaches midpoint in year three, there be two courses of eight weeks each, aimed mainly at reducing the number of staff that need to be sent abroad for M.S. level training. In the fifth Project year, there would again be two four-week courses. By this time, it is assumed that there may well be an acceptable M.S. program in Panama as well, or that other public or private organizations may be offering suitable short courses.

6. Training Abroad: Clearly the prospect of obtaining a M.S. or even a Ph.D. degree abroad is a strong incentive for DNPS staff members interviewed. There is a M.S. program in Management available locally, and INCAE has just relocated its M.B.A. program to San Jose. However, there is no solid opportunity for post-graduate training in economic analysis in Panama, and the only such program fairly close geographically is that of the Universidad de los Andes in Bogota.

For the Policy Analysis Unit, the focus of this Component, the end of Project assumes a staff level of ten economists. Of these, at least six would have at least a M.S. degree in Economics or Agricultural Economics, and at least four would be well on their way toward a Ph.D. Two more would be currently enrolled in a M.S. program, and two junior staff with only the Licenciatura in Economics or Agronomia, would be getting on-the-job experience before starting their own M.S. training.

Both to facilitate retention of those trained abroad, and to lower the cost of this Component, it is recommended that M.S. trainees be kept on the payroll, rather than being on leave, and that they be required to return to Panama to work during two months of the academic vacation wherever they are studying. (The Project would pay for travel

for the entire family for this purpose.) The Policy Unit of DNPS would have to plan specific tasks for them, and at the same time the trainees would not lose touch with their colleagues and the reason they are in study abroad. In addition, with the assistance of the Resident Advisors DNPS would prepare specific research and analytical tasks for the trainees to carry out at their universities during the second half of their M.S. training, as term papers or as a M.S. thesis. Thus they would return with useful work for DNPS (e.g., on forecasting world sugar prices) that can be done more easily abroad. (The DNPS also thus obtains a little free consulting from the trainees' professors.)

7. Ph.D. training. For Panama to have its own analytical capability, the GOP clearly needs trained economists at the Ph.D. level. However, not all Ph.D. recipients are competent or even interested in policy analysis. Likewise, some very competent analysts do not have that degree. It is thus recommended that although the Ph.D. be the goal for senior analysts in this unit, there not be a strong push to attain many doctorates during the 5 years of this Project. Rather, with the aid of the Resident Advisors and the short-term consultants, those who have done superior work on a M.S. degree and who are genuinely interested in the further effort needed for a Ph.D., and who appear likely to remain at the DNPS, would be assisted toward the highest degree. As a mere projection, I expect that one person at most will attain this degree by the end of the Project, but that two or three more will be ABD: that is, will have completed coursework and passed preliminary examinations, and be working on thesis projects as part of their work at the DNPS.

8. Other Project Inputs. These are fairly obvious. The vehicle to be used by the Policy Analysis Unit could be brought in during the first or second year, depending on how soon adequate maintenance facilities are available. Likewise, the microcomputer could be installed in the first or second year, but if it is easier and cheaper to install all the micros and word processors at once, then the timing for the others in the project would be decisive. (This decision may also depend on where DNPS and MIDA are to be located, and when any move will take place.)

If the Project is unable to arrange duty-free import for the personal vehicles of the Resident Advisors, an alternative would be to bring in two more Project vehicles (total of 3 for this component), assigning two to the Resident Advisors for personal and family use. One would still be needed for Policy Unit business.

Word Processor: There will be other word processors provided for DNPS, but it is strongly suggested that one be dedicated to the Policy Unit, ensuring that a response to a Ministerial request is never held up because of a typing bottleneck. If the Unit must get in line for the use of a pool, experience suggests that responses will sometimes be held up while a higher-ranking staff member in another unit gets his typing done--and the alternative of giving the Policy Unit an automatic top priority could cause great resentment in other Departments.

Supplies: While the GOP will provide most office supplies, again experience suggests that there will always be some items simply not available locally or through regular provider channels. A small fund for these items will bring software, teaching materials for short

courses, and other items not readily obtainable locally or not fitting in the current GOP budget allocation for this Unit.

In-country Travel: Staff of the Policy Unit, like other DNPS staff, should be encouraged to spend time in regular visits to regional offices of MIDA and agricultural sector agencies, and to producers (large, medium and small, including the asentamientos as well). Since recent GOP budgets for this purpose have been inadequate, and that cannot be cured very quickly, a separate fund is provided for this Unit, to which the GOP is to make a contribution increasing each year. By the end of the Project, it is assumed that the travel expenses appropriate to continuing operations will be adequately funded by the GOP. This item is for the Resident Advisors, Consultants, and Unit DNPS staff.

Journals: This is a small supplement to the subscriptions that should be included in the Documentation component, for journals that DNPS and the Resident Advisors consider especially relevant for policy analyses. There are various good ones; the Journal of the American Agricultural Economics Association would probably be the first. DNPS and the Resident Advisors should also ask the U. S. Embassy (CAO) to help try to find someone in the U.S.A. willing to donate a collection of back numbers (U.S. tax deductability can be arranged).

Publication Expenses: While the MIDA has a small budget for printing and binding, we envision a level of production of policy analyses that would probably exhaust the regular budget. Because there is a need for policy analyses to circulate widely, in the private as well as the public sector, before critical decisions are made, the Project includes modest funding so that the cost of publication is

never a valid reason for not circulating the work of this Unit. We note also that if the DNPS has a series of publications, it can get free subscriptions to the output of many similar agencies elsewhere on an exchange basis, thus building the DNPS library at low cost.

Salary Supplements/Overtime Pay: We hope that salary adjustments for returning trainees will be made routinely after the Project is well under way. However, at first it may be necessary to provide small supplements until year-end in some cases. In addition, the Unit should have at least one and preferably two bilingual secretaries, who may not be available for what MIDA can afford to pay at present. A small fund is therefore provided to help in hiring such staff, who would serve the Unit, the Resident Advisors, and the Consultants.

OTHER COMMENTS ON TRAINING AND RESIDENT ADVISORS IN THIS COMPONENT

Fringe Benefits for Resident Advisors

The resident advisors are assumed to be contracted under Personal Service Contracts or similar arrangements which confer, at a minimum, the right to bring in reasonable personal and household effects, including an automobile, without paying customs duties. It is also assumed that these persons will be entitled to make reasonable use of Commissary facilities such as those used by AID contract personnel

If these assumptions are incorrect, and the resident advisors are to be treated just like any civilian personnel that might be hired by a private company for work in Panama, then the budgets would need to be modified to allow either higher salary or higher reimbursements to cover duties on the importing of personal and household effects and an automobile, and any estimated difference in the cost of living. (Gasoline is one obvious price distortion between the two arrangements.) This might require the addition of approximately \$10,000 for each advisor's term of duty, most of it to be disbursed by the contractor in the first year.

In the private sector, employers normally reimburse expatriate employees for whatever customs duties are charged on their incoming household and personal effects, including a used automobile. We could do this in the present Project, but it seems rather strained--increasing the GOP's tariff revenues at the expense of Project money available for MIDA--all because we are reluctant to do the paperwork for contracting the experts as AID persons.

I doubt that most MIDA and DNPS officials would attach a high priority to increasing Panama's tariff revenues at the expense of their own Project.

Of the two perquisites, the Commissary privileges are the lesser in importance. However, it is most unlikely that anyone we wish to hire would be willing to move to Panama for two years without the right to bring a car, or alternatively the use of a car for the time here.

Just before departing country, I heard that the RDO does not want anyone bringing in a brand new BMW or other expensive car. I agree! However, one can instruct the successful contractor that they are to instruct prospective resident advisors that the car must be unostentatious (and even Buy American if you wish).

An alternative, which avoids the car import problem and also avoids the hassle at the end of tour, when the resident advisor invariably loses some work time trying to sell his car, is to provide the car as part of the contract and not allow the resident advisor to bring a car in at all. This practice has been successful for the Ford and Rockefeller Foundations in several South American countries.

If the Mission prefers this option, then the budget for vehicles should be increased to three instead of one for this component, all in the first year. The item for the Resident Advisors need not be increased, and candidates must be advised that a car will be provided for their family use. However, if they choose to bring another car to Panama, they will have to pay both freight and applicable customs duties on it. It should be plainly understood, in writing, between DNPS and USAID, that one of the vehicles would be for the exclusive use of each Advisor and his/her family, as family transportation, during his entire tour of duty. However, at the end of the project (i.e., year 6), the vehicle would become the sole property of the DNPS to use as it saw fit.

## APPENDIX A

### CONSULTANT'S SCOPE OF WORK

#### (Institutional Analysis)

(from PIO/T No. 525-0187-3-300070, attachment 1, p. 4)

#### 1. General Statement of Purpose:

Technical assistance is required to carry out the in-depth design analysis and strategy definition in connection with development of a proposed Agricultural Policy Formulation and Management Project.

#### 2. Specific Task Assignment (24 person days):

2.1 Review and assess current mechanisms for establishing and implementing Panama's public sector agricultural policies.

2.2 Evaluate the performance of the key institutional actors, including the DNPS, in supporting agricultural policy formulation.

2.3 Evaluate the degree to which existing institutional responsibilities, organizational alignments, operational procedures, staff composition and capabilities support agricultural policy analysis and formulation.

2.4 Assess the policy analysis and informational needs of other MIDA departments, senior MIDA management, autonomous agencies, as well as those of the principal agricultural financial institutions (e.g., BDA, BNP, COFINA), the Ministry of Commerce and Industry (MICI), the Controller-General, and the Ministry of Planning and Economic Policy (MIPPE), etc., and evaluate the extent to which DNPS is presently or could be adapted to serve these needs.

2.5 Assess the degree to which MIDA policy makers and senior managers understand how to use a policy analysis unit like DNPS to set, implement and monitor sector policies.

2.6 Evaluate proposed institutional mechanisms for agricultural policy analysis, formulation and implementation.

2.7 Recommend modifications or improvements, as appropriate, in staffing, institutional/procedural arrangements, etc., to improve overall performance in support of public sector agricultural policy. And

2.8 Outline the types of technical assistance and other support required to strengthen policy formulation capacity.

APPENDIX B

PERSONS INTERVIEWED

- Ing. Roberto Barragan, Vice-Minister of Agricultural and Livestock Development
- Licda. Zunilda C. de Bonilla, Sub-Director of the DNPS
- Licda. Amalia Rocquez, Chief, Budget Department, DNPS
- Ing. Ezequiel Espinosa, Director, IDIAP
- Ing. Jorge Aued, Subdirector of Planning, IDIAP
- Ing. Victor Guillen, Chief, Dept. of Agro-Industries, DNPS
- Ing. Roberto Jimenez, Chief, Planning Dept., BDA
- Lic. Saul Jojane, Regional Planner, MIDA Regional Office, David
- Lic. Manuel Lee, Economist, Dept. of Specific Projects, DNPS
- Prof. Jose Loaiza, Chief, Dept. of Regional Planning, DNPS
- Licda. Silvia Lee, Executive Director, Finances, BDA
- Licda. Marisela C. Machuca, Director, Dept. of Human Resources, MIDA (Santiago)
- Lic. Cesar McKay, Regional Director of Social Development, MIDA Regional Office, David. (Now called a Specialist, on the MIDA Regional Director's staff.)
- Prof. Alvaro Miranda, Regional Executive Director, MIDA, David
- Lic. Ulises Morales, Chief, Dept. of International Technical Cooperation, DNPS
- Ing. Juan Luis Moreno, Director-General of Economic and Social Planning, MIPPE
- Dr. Juan Ernesto Mojica Penalba, DNPS Coordinator, MIDA, Santiago de Veraguas
- Lic. Leo Otero, Chief, Dept. of Short and Medium-Term Planning, DNPS
- Lic. Carlos Palacios, Chief, Dept. of Specific Projects, DNPS
- Lic. John Panzer, Consultant, MIPPE, policy studies
- Lic. Nelva de Pimentel, Office of Human Resources, MIDA, Santiago

Ing. Ezequiel Rodriguez, commercial farm owner-operator and former President of the National Cattlemen's Association

Dr. Gian Sahota, Consultant, MIPPE

Capt. Reinaldo Serna, Director for Administration, MIDA

Ing. Humberto G. Tapia C., SENAGRA Regional Specialist, attached to the MIDA Regional Office in David.

Lic. Dario Tovar, Coordinator, FAO Small Irrigations Project, DNPS

Lic. Pedro Tunon, Chief, Statistics Dept., DNPS

Dr. Daniel Wisecarver, Consultant, MIPPE

Also, representatives of the following entities, members of the Rice Commission:

Asociacion Nacional de Molinos

Asociacion de Productores de Arroz de Chirique

Asociacion de Productores de Arroz de las Provincias Centrales

## APPENDIX C

### TERMS OF REFERENCE

- Position:** Resident Advisor, Economic Policy (Senior)
- Length of Contract:** 18 to 24 months, renewable
- Place of Work:** Panama City (80%), Interior (20%)
- Institution:** Sectoral Planning Office (DNPS) of the Ministry of Agriculture (MIDA)
- Purpose:** To help DNPS frame, organize and conduct analyses of economic policies, give on-the-job training to staff of the DNPS Agricultural Policy Analysis unit, organize and help conduct short courses for DNPS staff economists, help select staff for post-graduate training abroad, help trainees obtain admission, monitor their progress, and help ensure their effective reintegration on return.
- Outputs:**
- At the end of his contract, the Resident Advisor
- 1) will have imparted significant on-the-job training to a staff averaging 8 economists;
  - 2) will have helped organize and conduct about four short courses for DNPS and MIDA staff;
  - 3) will have helped select and send about four trainees per year abroad for M.S. training;
  - 4) will have helped select and send abroad one or two trainees for further training toward the Ph.D. degree in Agricultural Economics;
  - 5) will have helped the DNPS build a Policy Analysis Unit able to give timely, coherent responses to requests from the Minister of Agriculture on matters of agricultural policy;
  - 6) will have helped the Policy Analysis Unit staff learn to anticipate problems and issues, and to organize and conduct analysis in depth for publication and discussion in the public and private sectors of Panama, to assist an enlightened public debate over future policies;
  - 7) and will have helped the Unit assist other Departments in the DNPS, with policy analyses needed in their respective tasks.
- Expertise Required:**
- 1) Experience and demonstrated competence in the analysis of agricultural economic policies in developing countries (minimum 4 years);
  - 2) Experience and demonstrated competence in teaching and in on-the-job training;
  - 3) Spanish and English fluency, oral and written;
  - 4) Familiarity with U. S. and Latin American academic institutions and practices.
  - 5) Possession of a Ph.D. degree in Economics or Agricultural Economics.

### TERMS OF REFERENCE

- Position:** Resident Advisor, Economic Policy
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  - 6) will have helped the Policy Analysis Unit staff learn to anticipate problems and issues, and to organize and conduct analysis in depth for publication and discussion in the public and private sectors of Panama, to assist an enlightened public debate over future policies;
  - 7) and will have helped the Unit assist other Departments in the DNPS, with policy analyses needed in their respective tasks.
- Expertise Required:**
- 1) Experience and demonstrated competence in the analysis of agricultural economic policies in developing countries (minimum 1 year);
  - 2) Experience and demonstrated competence in teaching and in on-the-job training;
  - 3) Spanish and English fluency, oral and written;
  - 4) Familiarity with U. S. and Latin American academic institutions and practices.
  - 5) Possession of a Ph.D. degree in Economics or Agricultural Economics.

NOTES ON THE RESIDENT ADVISORS:

- 1) While the Senior Resident Advisor might appropriately be considered for the position of Chief of Party for this Project, it seems likely that that responsibility will fall instead to one of the Experts brought in for the Management Component. The Mission and/or Contractor should make that choice, based on its evaluation of the candidates being recruited.
- 2) The Senior Resident Advisor to the Policy Analysis Unit and the second Resident Advisor should be recruited so that their special interests, experience and expertise do not totally overlap, but rather reinforce each other. One may be more given to massive number crunching and the other to institutional analysis, for example. One may specialize in marketing and trade issues, and the other in price and producer response.
- 3) One or the other of the Advisors should be knowledgeable about Industrial Organization, monopolies, and similar problems that tend to arise in small economies with weak government regulation.
- 4) One or the other of the Advisors should be knowledgeable about problems in land economics, land tenure, rural development, and the like, which will also arise in Panama while conducting studies of prices, marketing and the like.
- 5) At least one of the Advisors should be familiar with U. S. University graduate admission practices; at least one of them should have some familiarity with M.S. programs in Agricultural Economics at Latin American universities (e.g., in Chile, Colombia, and Brazil).
- 6) The Resident Advisor should be allowed to teach a course at a Panamanian University (ad honorem) if asked, as an investment in future staff development and recruitment.
- 7) The Resident Advisors may be hired for as little as 18 and as many as 24 months, and their contracts may be renewed if this is mutually desired.
- 8) To avoid misunderstandings and disaffected staff, candidates must be told exactly where they will stand with respect to the shipping and customs clearance of personal and household effects and a motor vehicle, and to any fringe benefits normally accorded persons working on AID projects in Panama, such as access to the Commissary or the use of APO mail..