

USAID/Panama
Operational Plan

FY 2006

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Please Note:

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Program Performance Summary FY 2005: Background: In 2005, President Torrijos, Panama's fourth president to be elected in 15 years of political stability, completed his first full year in office. During this period, his Administration initiated efforts towards meeting their electoral campaign promises to: combat corruption, modernize the justice system, tighten fiscal discipline, institute social sector reforms, expand free trade, and maintain the Panama Canal's competitiveness in moving global commerce. The Panama Canal is vital to U.S. national interests and security as most of the 300 million tons of freight that transit the Canal annually between the Atlantic and Pacific oceans originates in or is destined for the United States.

Significant achievements of the Torrijos Administration's first year include: 1) institutionalizing a policy of "zero tolerance for corrupt acts;" 2) signing a Cabinet Decree annulling the regulation that prevented full implementation of the Panamanian Freedom of Information Act; 3) creating a National Anticorruption Council and endorsing its recommendations for combating corruption, thus raising private sector confidence; 4) signing the State Pact for Justice Reforms and creating the Commission on Justice Reforms that produced an agenda for critical reforms; 5) recognizing the legitimacy of civil society organizations to be a counterpoint to government authority; 6) raising the bar for government accountability; 7) implementing reforms in personal income and corporate taxation to eliminate disparities; 8) completing feasibility studies for a third set of locks to allow vessels of a larger size to transit the Panama Canal; and 9) preparing for the ninth and final round of negotiations aimed at finalizing a bilateral free trade agreement with the United States.

Challenges: Panama continues to develop its modern and prosperous service sector in parallel with a relatively less robust and protected agriculture-based economy. In 2004, Panama's Gross Domestic Product was \$14.0 billion and the annual per capita income was approximately \$4,500. These economic indicators along with select social indicators, a high literacy rate (92%), a relatively low population growth rate (1.4%), and relatively high life expectancy rates that exceed 70 years, mask more serious underdevelopment and security issues which, if not addressed now, threaten Panama's democratic institutions and political stability, and compromises its future development.

Panama's unemployment rate in 2005 declined to 9.6% from 11.8% a year ago, and approximately 30% of the labor force was underemployed. Also, Panama has the second worst income inequality in the region, with the wealthiest 20% of the population (600,000 people) accounting for 41 times the income of the poorest 20% of the population, and 1.2 million people (40%) of the population living below the poverty line. The economic and social well-being of many Panamanians, particularly those living on the edge, will worsen if the climate for increased investment and new economic opportunities, and income generation is not improved. A strong commitment to modernize the justice sector remains to be demonstrated. Uneven application of the rule of law continues to deter new domestic and foreign direct investments, spur protectionist tendencies in the agricultural sector, and slow the pace of Panama's participation in global trade.

USAID programs in Panama aim to improve transparency and accountability in government, modernize the judiciary, improve trade competitiveness, support the smooth transit of world commerce through the Panama Canal, and reduce the potential for cross-border conflict. Discretionary application of the rule of law and corruption discourage new private investment flows for increasing economic opportunities, and boosting market-led development. Maintaining the integrity of the Panama Canal Watershed is critical to world trade and U.S. national security. USAID programs support the consolidation of democracy, environmental stewardship, community empowerment and trade competitiveness for poverty reduction and conflict mitigation. Programs are implemented through grants and contracts and leverage private and public capital for supporting policy reforms, best practices, community participation, and strengthening civil society organizations for advocacy and holding government accountable.

Panama's most pressing challenges in the decade ahead are to ensure the modernization and continued smooth administration of the Panama Canal, the bedrock of its predominantly service-oriented economy, establish the conditions for increasing trade and rural competitiveness while addressing widespread income inequality, consolidate democracy, modernize the judiciary, and fight systemic corruption.

The USAID programs support Panama's efforts to address the above social and economic constraints. Program activities: 1) catalyze the process of improving transparency and accountability; 2) identify market niches for global trade competitiveness; 3) develop best practices for conserving the integrity of the Panama Canal watershed, essential for ensuring uninterrupted flows of water of adequate quantity and quality for the movement of world commerce through the Canal; and 4) reduce ethnic tensions that result from weak State and local government presence in the Darien, a remote underserved region, vulnerable to drug trafficking and the lure of illicit income generating activities. Further USAID efforts are needed to solidify our gains in the Darien which remains vulnerable to influence by criminal activities, the Fuerzas Armadas Revolucionarias Colombianas (FARC) and Colombian paramilitary groups.

U.S. Interests and Goals: The United States Government has significant economic and strategic interest in Panama. It is important for those interests that Panama remains stable and an important ally. To this end, it is in the U.S. interest to assist Panama in its efforts to consolidate its democracy and reduce poverty. A more democratic and prosperous Panama, sharing the benefits of trade-led growth broadly among its citizens, will reinforce political stability in the region, and ensure the uninterrupted flow of international commerce through the Canal.

Key Achievements: During FY 2005, the USAID Ruling Justly program continued to work with civil society organizations to strengthen their advocacy for reforms of the judiciary and improved governance. Seizing the day, USAID was the first donor to support the work by the Citizens' Alliance for Justice, a coalition of 15 civil society organizations. This assistance resulted in a popular call for immediate action by the Executive Branch to curb public corruption and malfeasance. In quick order, the National Anti-corruption Council was established, a State Pact for Justice was signed by the President and prominent legal entities, and a Commission on Justice Reforms produced an agenda for critical reforms.

To facilitate market led growth, the Government of Panama will need to aggressively promote economic freedom, and increase the country's productivity and competitiveness to take advantage of global trade opportunities. USAID is forging public-private partnerships to analyze constraints and identify opportunities for increasing rural and global competitiveness. To contribute to achieving U.S. national and strategic interests, USAID continued to solidify its cooperation with the Panama Canal Authority on managing the Canal watershed, and promoted integrated management in critical watersheds in impoverished areas. Resource leveraging through strategic alliances and nontraditional partnerships have become the mainstay of USAID's support. Dollar for dollar leveraging has become an important criterion for supplementing USAID's scarce resources.

To empower indigenous communities and help legitimize local government authority in the economically least developed province of the Darien bordering Colombia, USAID built numerous social and productive infrastructures. The benefits are helping to thwart repeated forays and efforts of Colombia's drug traffickers to lure the Darien communities into the web of illicit activities.

1. Ruling Justly: More Responsive, Transparent Governance. USAID developed effective working relationships with the newly appointed key counterparts in the Panamanian Government, for instance, the Solicitor General, the Controller General, and members of the Ministry of Economy and Finance, and the National Anti-Corruption Council. USAID support made possible the start up of seminal activities by the Citizens' Alliance for Justice Reform, a group of 15 civil society organizations that effectively advocated for fundamental changes in the justice system. Additionally, USAID supported the work of the Commission on Justice Reform and the resulting agenda for justice reforms.

2. Economic Freedom: Open, Diversified, Expanding Economies. USAID support continued to raise the bar for environmental stewardship. The USAID watershed program led to major policy reforms and adoption, institutional strengthening, best practices in natural resource management for improved farm incomes, conservation of biodiversity, stakeholder participation, and empowerment in strategic sub-watersheds in the Panama Canal Watershed and protected areas. Support for trade competitiveness is helping to prepare Panama to implement the anticipated bilateral free trade agreement with the United States, and identify sectors that show promise for new investments and employment creation.

3. Selected Darien Communities Strengthened: USAID support continued to result in watershed improvements in the quality of life and well-being of 64 participating communities (25% of the population) in the Darien region. This is an exceptional accomplishment given the large number of isolated communities within the largest province of Panama, that now benefit from social and productive infrastructure, and their incipient recognition of local government's responsibility to provide essential services. The affected Darien communities are now speaking with one voice to articulate priority needs and areas for targeting new public-private investment. Beneficiaries are showing their readiness to identify development constraints and opportunities, and organizing themselves into production groups for entrepreneurial activities and maintaining social infrastructure.

Gender: Gender mainstreaming is a prominent cross-cutting theme across USAID/Panama's development assistance portfolio. Gender mainstreaming is embedded in the action plans of our implementing partners and counterparts. Implementation of best practices and recommendations that emerged from the Gender Assessment of April, 2004, started in FY 2005. Implementing partners for both the Economic Freedom: Open, Diversified, Expanding Economies, and Ruling Justly: More Responsive, Transparent Governance Programs are implementing Gender Action Plans for greater incorporation of gender issues.

Within the Economic Freedom program, the prime institutional contractor for the Panama Canal Watershed component has completed a series of training for participating communities and sub-implementing entities in the planning and implementation of integrated resource conservation techniques including best practices for farming and ranching. On average, women farmers and counterpart technicians accounted for 40% of the total enrollment. Gender roles were emphasized in order to maximize the respective contributions of both genders for ensuring sustainable income streams and the application of best resource management practices.

USAID's continuing support to the predominantly indigenous peoples of the isolated Darien region has improved the quality of life of women and their families. Impacts are clearly evident in improved family health resulting from potable water and sanitation systems, a marked decline in school absenteeism, the organization of female artisans into production associations, and development of value-added income generating enterprises operated by women. Also, the Darien program continues to assist women-owned and operated businesses to increase their sales and household incomes without having to stay away from their families for long periods.

In the democracy program, civil society has assumed an important role in promoting the participation of women in policy analyses and decision making, improving access to justice for women, providing training for women judges, and promoting the role of women in the advocacy of improved administration of justice for all. The nascent trade and investment initiative and the democracy program are incorporating gender mainstreaming in all of their activities. The growing number of women holding key government positions illustrates the gender dynamic that exists within Government of Panama counterpart institutions. Furthermore, the current Attorney General, the first woman in Panamanian history, is very supportive of the USAID democracy program in Panama.

In FY 2006 USAID will continue to advance the Gender Action Plan across the entire program portfolio to consolidate the gains in FY 2005, and further explore how gender associated strengths and attributes can work in harmony to improve the sustainability of our investments.

Global Development Alliances (GDA), Partnerships, and Strategic Alliances: In FY 2005, USAID/Panama leveraged \$6.6 million with \$265,000 of scarce DA resources. This is equivalent to a ratio of 1:25, an exceptional achievement resulting from USAID intellectual leadership in forging partnerships with responsible private and public sector entities, and environmental NGOs, and USAID's proven comparative advantages. Resource leveraging has become a key component of USAID/Panama's tool kit for programming scarce resources. It serves as a criterion for assessing the potential of new activities for their sustainability once USAID support ends. Embodied in this principle, is that new program activities should be demand-driven as judged by the extent to which USAID's resource will help cement sustainable private-public partnerships and alliances, measured by direct dollar for dollar leveraging, or

the partner's demonstrated commitment to an in-kind contribution.

This market-based approach to doing business in Panama is garnering much interest and buy-in by Panama's well-developed and prosperous service sector. As more and more tourists choose Panama as their destination, and public awareness of the importance of conserving the country's rich and diverse biodiversity, patrimony and coastal resources increases, USAID/Panama expects to forge additional partnerships in FY 2006. We document below several cases of new partnerships and alliances that were forged in FY 2005:

With \$235,000 in Global Development Alliance Incentive Funds, USAID/Panama leveraged up to \$5.0 million in private lending capital to establish the first student loan program in Panama for underserved students who can not afford the cost of a higher education. USAID forged a private-public alliance among Laureate Education Universities in Panama, BanVivienda, and USAID that makes available to the fastest growing demographic group in Panama loans for their professional training and development. This student loan program is essential for responding to a market imperfection as there is no financing available to help level the playing field between affluent and middle- to low-income families. Without access to financing, the skewed income distribution and socio-economic disparity will worsen.

The alliance is led by Laureate Education, a global leader of accredited campus-based and on-line universities headquartered in Baltimore, Md. The two partnering Panamanian universities, "Universidad Interamericana de Panamá" and "Universidad Latinoamericana de Ciencia y Tecnología" are part of Laureate Education. The program is structured in such a way so as to build a loan loss reserve that will continue to function long after the USAID loan guarantee ends.

By facilitating the private-public alliance USAID is assisting Panama maximize its comparative advantage under the anticipated bilateral free trade agreement with the United States. Investment in human capital is essential for success of the free trade agreement because Panama's comparative advantages are in services, banking/finance, and shipping/engineering-all of which depend on an educated and highly skilled workforce.

In its efforts to increase the institutional capacity of Panamanian Environmental NGOs, USAID provided a grant of \$30,000 to The Nature Conservancy (TNC) to assess their strengths and weaknesses of Panamanian environmental NGOs, and identify areas for assistance. USAID used the findings and recommendations at discussions with interested public-private sector groups. These discussions catalyzed the establishment of an alliance of NGOs for environmental awareness, monitoring and management, and leveraged \$1.5 million. Alliance partners are: the Swiss millionaire businessman Stefan Schmittheine, Panama's private sector, and the TNC, with each organization contributing \$500,000. Also in FY 2005, USAID's efforts to promote eco-tourism in the isolated Darien province leveraged \$60,000 of the Inter-American Development Bank's resources that supported the involvement of one additional indigenous community (to USAID's six), and two municipalities in eco-tourism promotion.

Earlier catalytic efforts by USAID in FY 2004 under debt-for-nature swaps that involved the GOP, U.S. Treasury, U.S. Embassy, and The Nature Conservancy (TNC), continued to bear fruits in FY 2005 through Chagres National Park Fund. TNC brokered the capitalization of a fund in the amount of \$11 million to be realized over a 14-year period. Under the Tropical Forest Conservation Act, contributions consisted of \$4.8 million of Panama's public debts, \$5.0 million from the U.S. Treasury, and \$1.2 million by TNC. This fund will finance implementation of conservation activities by Panamanian NGOs. Also, in the Darien, Panama's last resource-rich frontier, USAID's \$6.0 million investment (FY 2003 - FY 2006) in community organization and empowerment, social and productive infrastructure, and improved environmental stewardship, catalyzed a public-private alliance that leveraged \$1.2 million in the grantee's contribution.

Furthermore, other previously established alliances in 2004 continued to make good progress in FY 2005 in resource conservation and management. These include the \$5.0 million (1:1) Incentive Fund between USAID and the Panama Canal Authority, and a second debt-for-nature swap under the Tropical Forest Conservation Act that established the Darien Fund at \$10 million for managing the Darien National Park

and watersheds.

In FY2006, USAID anticipates entering into several new alliances, primarily with Panama's private sector to further replicate best practices in resource management and help develop the rapidly expanding tourism sector, a large generator of jobs, with emphasis on market niches that include eco- and adventure-tourism.

FY 2006 Program**SO: 525-021 Ruling Justly: More Responsive, Transparent Governance****Promote And Support Anti-Corruption Reforms**

Promote and Support Anticorruption Reforms: (\$990,000 ESF). Building upon USAID support in FY 2005 that helped operationalize the Government of Panama's (GOP) National Anticorruption Council (NAC) and subsequently, assisting in developing an anticorruption strategy, USAID is providing technical assistance and training to: reinforce the institutional capacity of the NAC, the Controller General's Office and the Public Ministry to curb corruption as well as investigate and prosecute corruption cases; design and develop monitoring systems to identify areas that are vulnerable to corruption; and deepen and widen civil society capacity to conduct social audits. The U.S. firm, Casals and Associates, is the principal contractor.

FY 2007 Program**SO: 525-021 Ruling Justly: More Responsive, Transparent Governance****Promote And Support Anti-Corruption Reforms**

Promote and Support Anticorruption Reforms: No funding is budgeted for this activity in FY 2007.

FY 2006 Program**SO: 525-022 Economic Freedom: Open, Diversified, Expanding Economies****Improve Sustainable Management Of Natural Resources & Biodiversity**

Improve Sustainable Management of Natural Resources and Biodiversity:(\$4,137,000 DA). USAID is focusing on priority areas that protect the environment and create employment, while partners are starting to replicate the models demonstrated in previous years in other subwatersheds of the Panama Canal Watershed. USAID is also continuing to assist the partners with the formulation of policy reform to assure sustainability and replication of the joint efforts. The Mission is also continuing a partnership by buying into a USAID Central America and Mexico Regional Program and the Rainforest Alliance. The intent is to support a certification program to improve environment conservation for forestry and pineapple production. In protected areas within the Panama Canal Watershed, USAID will support technical assistance to encourage sustainable tourism. Activities include: policy reform, modifications of regulations, creation and implementation of new park administrative systems, and institutional strengthening to more effectively manage tourism. Also, technical assistance is helping authorities develop an environmental governance program for improving enforcement of environmental laws and regulations and participation by stakeholders in the management of key protected areas. These efforts require the formation of additional public-private partnerships to co-manage parks, promote ecotourism, and generate revenues for park maintenance. Principal contractor: Academy for Educational Development.

Increase Trade and Investment

Increase Trade and Investment: (\$198,000 DA). USAID is focusing on funding short term technical assistance and training to build sector level capacity in support of increased exports and firm competitiveness. To this end, USAID supports demand led activities that enhance business development and provide business linkage support in key sectors with high potential to compete in the global economy. These include nonprotected agroindustry and teak, tourism services, and information technology. Principal contractor: Nathan Associates.

FY 2007 Program**SO: 525-022 Economic Freedom: Open, Diversified, Expanding Economies**

Improve Sustainable Management Of Natural Resources & Biodiversity

Improve Sustainable Management of Natural Resources and Biodiversity: (\$3,180,000 DA) USAID plans to support select policy reforms, participatory and practical approaches to watershed management, and activities in environmental governance. USAID expects to continue funding technical assistance in the above areas in the Panama Canal Watershed (PCW). USAID may use funds to further support the development of sound policies at the local level, strengthen the foundation for stable funding to support and maintain the integrity of the PCW, and put in place field-based validation of systems, processes, and tools to improve management in the PCW. USAID intends to continue implementing activities that promote sound agriculture production and ranching enterprises, wastewater management, and clean industrial production. USAID also plans to fund technical assistance to build on-site capacity for improving the protection and management of protected areas. USAID anticipates continuing support of sustainable ecotourism services through public-private alliances. Additionally, it may support activities to develop clusters around tourist circuits, training of public officials, and private agents to better cater to the needs of tourists and better manage tourism activities. USAID aims to build on its successful experience with leveraging Panamanian private sector resources for new investments in tourism infrastructure. Implementers to be selected through a competitive process.

Results Framework

525-006 Selected Darien Communities Strengthened

Program Title: Rural Community Development

IR-6.1: Social Infrastructure in Selected Communities Improved

IR-6.2: Organizational Capacity of Local Governments and Community-based Organizations Strengthened

IR-6.3: Productive Infrastructure in Selected Communities Improved

Discussion: This Special Objective (SpO) supports effective governance, community institution building, small-scale social and productive infrastructure, and income-generating opportunities. Program activities directed at achieving the three Intermediate Results generate synergies and linkages between the Intermediate Results. Local organizations and strategic alliances with private sector should be an integral part of this SpO.

Intermediate Result 6.1 Social Infrastructure in Selected Communities Improved

Focus of activities is on helping selected communities implement social infrastructure projects identified by the communities with an emphasis on local management, self-help, and sustainability. Projects are undertaken as a result of community consensus-building and in partnership with the community. Outputs include social infrastructure improved in selected communities; improved local management skills applied; self-help techniques in use; and sustainability conditions in place, including operations and maintenance by community residents.

Intermediate Result 6.2 Organizational Capacity of Local Government and Community-based Organizations Strengthened

Support is provided to local authorities and community leaders in selected communities, working in partnership, to help them prepare and implement a plan to strengthen community organizations for the development of self-help sustainable activities. Outputs include organizational capacity of local governments and community-based organizations strengthened; communities learn-by-doing how to articulate their needs, participate in decision-making, develop and implement self-help activities; participatory consensus building processes, emphasizing grass-root democratic practices as core values, in use; and democratic leadership and organizational skills in indigenous, Afro-Panamanian and "mestizo" communities strengthened.

Intermediate Result 6.3 Productive Infrastructure and Income Generation in Selected Communities Improved

Building on community consensus regarding productive infrastructure priorities and income-generating activities, projects should be developed in partnership with local authorities, private sector, NGOs, community organizations and other stakeholders. Outputs include productive infrastructure and income generation in selected communities improved; playing field for fair market conditions improved; increase income generated from environmentally sustainable market diversification, i.e., eco-tourism and handicrafts; and strategic alliances with private sector developed.

525-021 Ruling Justly: More Responsive, Transparent Governance

Program Title: Ruling Justly

IR 1.1: Strengthened Rule of Law

IR 1.2: Greater Transparency and Accountability in Government Improved

Discussion: The Ruling Justly program supports activities that will first and foremost build a base of support for fighting corruption and demand for justice reform through civil society organizations that work

with agents of change in government, the media and others. If political will exists, the judiciary will be folded into the program. Support for transparency, accountability and rule of law reforms through civil society advocacy will be paramount during the first two years of the Country Plan. Key outputs include strengthened rule of law and greater transparency and accountability of the government of Panama.

Intermediate Result No. 1.1 Strengthened Rule of Law

Program will support activities that enhance participation by civil society, including business organizations and the media, to promote and maintain momentum for justice reform; advocate for greater access to prompt, fair and affordable avenues to resolve disputes; foster selected reforms; and increase government presence in at-risk communities of the Darien and elsewhere through the provision of local justice and governance activities. Key outcomes include strengthened capacity for effective, peaceful resolution of disputes and selected systems of administration of justice improved.

Illustrative activities:

- Support civil society organizations to advocate for justice reform and promote culture of lawfulness and peace
- Foster use of alternative dispute resolution methods
- Support improvements of selected systems of administration of justice
- Support access to justice at the community level

Intermediate Result No. 1.2 Greater Transparency and Accountability of Government Improved

Under this Intermediate Result, the program will promote political will to reduce corruption and increase greater transparency of government activities by strengthening civil society's ability to conduct social auditing/monitoring activities; increasing public access to information, strengthening investigative reporting; and developing a national anti-corruption strategy and action plan. Outputs include business involvement and responsibility in fighting corruption and trained journalists and non-governmental organizations to be more effective in conducting investigative journalism and reporting on corruption. Key outcomes will be more transparent systems for management of public resources by the national government and more opportunities for citizen participation in and oversight of national government decision making.

Illustrative Activities:

- Support development and implementation of a national anti-corruption strategy
- Promote improved capacity of key public entities responsible for preventing and investigating corruption
- Support strengthening public sector entities in ethics and accountability
- Support civil society advocacy in promoting and maintaining public focus on reducing corruption nationwide
- Support capacity building of civil society to carry out social audits
- Promote oversight of good governance

525-022 Economic Freedom: Open, Diversified, Expanding Economies

Program Title: Economic Freedom

IR-2.1: Laws, Policies and Regulations that Promote Trade and Investment

IR-2.4: Improved Management and Conservation of Critical Watersheds

Discussion: The Economic Freedom program supports trade capacity building efforts to reduce business constraints and increase competitiveness in order to take advantage of trade opportunities in a global economy. The program also provides support for an integrated approach to managing water and land resources in critical watersheds that improves environmental stewardship. This emphasis will help

Panama maximize its competitive position and ensure a constant flow of fresh water in quantity and quality to ensure the transit of ships through the Panama Canal and the supply of potable water for a combined population of 1.5 million in Panama City and the province of Colon, while ensuring healthy residents in the Canal Watershed

Intermediate Result 2.1 Laws, Policies and Regulations that Promote Trade and Investment

USAID's development assistance supports activities that promote trade capacity building efforts both during and after negotiations. As a result, Panama's readiness to take advantage of expanding trade opportunities will increase. Outputs will include increased competitiveness in the global economy and increased domestic and foreign direct investment and employment generation.

Intermediate Result 2.4 Improved Management and Conservation of Critical Watersheds

USAID's support will help Panama maintain the integrity of selected critical watersheds. Sustainable management and protection of the Canal Watershed is critical to assuring continued fresh water in quantity and quality for the operation of the Canal. Outputs that will foster better environmental stewardship include key policy changes, conserving biodiversity, ownership and empowerment by local communities and the private sector in sustainable resource utilization, improved natural resource management practices in critical watersheds for improved farm incomes.