

Panama

The Development Challenge: Panama remains on a path that lacks the impetus to achieve sustainable economic growth and development. Its dual economy consists of a progressive modern sector and a traditional rural sector. Slow economic growth, double-digit unemployment, and a highly skewed income distribution characterize Panama's poor socioeconomic performance. Around 28% of Panamanian households (37% of the population) live in poverty; of these, more than 12.3% live in extreme poverty. The economic and social wellbeing of many Panamanians, particularly those in the lower income bracket and those living in poverty, will worsen without sustained economic growth. Panama is currently in the process of transforming its education system. Although many of its education indicators are among the best in Central America, substantial inequalities in access to and quality of education remain. This situation adversely affects labor force productivity.

The overall performance of the Panamanian economy is tied to the Panama Canal and the Panama Canal Watershed (PCW). Availability of sufficient water to operate the locks system is a key factor for ensuring continued effective operation of the Panama Canal. Massive deforestation has reduced the forest cover in the Panama Canal Watershed and, in the process, eroded its river valleys and lakeshores. Increasing rates of population migration into the watershed, with concomitant urbanization and increased economic activity, threaten the Canal's environmental sustainability. The PCW is increasingly vulnerable to agricultural and industrial pollution, siltation, and sedimentation, which reduce the storage capacity of the lakes that serve as the Canal's water source.

The organization of Panama's judicial system is complex, involves numerous players, and is beset with many problems. Corruption is pervasive among the three branches of government and grudgingly accepted by many in the Panamanian private sector as a cost of doing business. Foreign investors perceive the legal system as working to the benefit of insiders. The judicial system, which is viewed as slow and cumbersome, has a substantial backlog of civil and commercial cases. In addition, the corrupting influence of the narcotics trade undermines local institutions, spawns violence and lawlessness, distorts the economy, and discourages legitimate investments.

It is in the U.S. national interest to ensure that Panama develop the capacity to sustainably manage and protect the Panama Canal Watershed. An effectively operating Canal facilitates world maritime commerce and ensures rapid transit of U.S. military vessels between oceans. Sustainable rule of law and anti-corruption measures will help increase investor confidence in Panama and attract more foreign direct investment, making it a more stable partner. Improved development and alternative sources of income in the Darien Province will stem the flow of illicit drugs into the United States and contribute to regional stability.

The USAID Program: FY 2004 and FY 2005 are transition years for the USAID program in Panama. In FY 2004, USAID will provide final year funding under the current bilateral strategy for the Panama Canal Watershed Strategic Objective. Unless unforeseen circumstances change the present situation, USAID will conclude the Darien Community Development Program, a short-term program under the Andean Regional Initiative, with final funding in FY 2004. Upon approval of a new Panama Country Plan under the Central America and Mexico (CAM) Regional Strategy, USAID plans to continue Panama Canal Watershed and justice reform activities. The Data Sheets provided below cover the two objectives for which USAID is requesting FY 2004 funding to complete activities under the current strategy, and two new objectives under the CAM Regional Strategy. USAID is also continuing activities under the justice reform special objective, which will be closed out in summer 2004; however no new funding is requested for these activities.

Other Program Elements: In addition to the bilateral program, the Central America Regional Program (G-CAP) and the Office of Regional Sustainable Development in the Bureau for Latin America and the Caribbean (LAC/RSD) manage programs in Panama. G-CAP programs expand Central American participation in global markets, improve environmental management in the Mesoamerican Biological Corridor, and enhance Panama's capacity to respond to the HIV/AIDS crisis. Activities include technical

assistance, pilot demonstrations, training, alliance building, financial strengthening, and policy studies. Initiatives include: a Development Credit Authority project supporting clean production by small- and medium-size enterprises; Global Development Alliances promoting certification and increased production and sales of environmentally-friendly products; creation of a regional fire and pest prevention and mitigation network; development of a regional remote sensing network to monitor carbon emissions from changes in land use and forest cover; and modeling of potential future climate impact for uses in decision-making concerning climate change vulnerability, adaptation, mitigation, and sustainable development. In addition, G-CAP is funding short-term technical assistance to small producers to help them offer consistent quantities of high quality Panamanian coffee for domestic and export markets. This project improves business practices and provides market linkages that increase the competitiveness and sustainability of this important industry in Panama. LAC/RSD, through its Parks in Peril program, mitigates threats to conservation in the Amistad Biosphere Reserve. Management and oversight of the Peregrine Fund, which repopulates harpy eagle populations in the Panama Canal Watershed, is now under the purview of the USAID bilateral program in Panama.

Other Donors: USAID is the major donor active in the PCW region. The Japan International Cooperation Agency (JICA) provides assistance to the Government of Panama and non-governmental organizations (NGOs) in the PCW that is complementary to, and coordinated with, USAID's efforts. JICA is supporting the establishment of a training center that provides environmental education and awareness training in forestry and agro-forestry techniques, and providing technical assistance to pilot communities in the PCW to improve environmentally-friendly agricultural production.

Beginning in FY 2004, the Inter-American Development Bank (IDB) plans to assist the Government of Panama to strengthen its institutional management and implementation mechanisms in support of community environmental mitigation efforts, with particular focus on the PCW. The IDB also supports conversion of destructive agricultural practices to environmentally friendly productive activities in the PCW. In addition, the IDB is helping the Government of Panama implement an integrated development program with important environmental elements in Darien Province. The IDB is the lead donor supporting a major Government of Panama effort to improve the criminal justice system, and has helped strengthen the Center for Mediation and Arbitration of Commercial Disputes at the Panamanian Chamber of Commerce.

The Food and Agriculture Organization of the United Nations (UN) assists the Ministry of Agricultural Development in its implementation of land use changes in the rural eastern region of the PCW, measuring the socioeconomic impact of these changes. Emphasis is on community participation and on environmental and socioeconomic sustainability. This effort is expected to lead to the development of a 20-year program with possible funding from the World Bank. The UN International Fund for Agricultural Development supports a sustainable rural development effort in Darien Province with emphasis on indigenous communities in the area. The UN facilitates coordination among other donors in Darien by sharing its extensive database. The USAID effort to strengthen selected communities in Darien complements both the IDB and UN programs.

The European Union supports a modest program to assist the Government of Panama in implementing a program of free legal services for poor pre-trial detainees.

Data Sheet

USAID Mission:	Panama
Program Title:	Protection of the Panama Canal Watershed
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	525-004
Proposed FY 2004 Obligation:	\$5,322,000 DA
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$0
Year of Initial Obligation:	FY 2000
Year of Final Obligation:	FY 2004

Summary: USAID's program to sustainably manage the Panama Canal Watershed (PCW) and buffer areas includes technical assistance, training, and commodities to promote policy reforms, behavioral change, a more participatory and practical approach to watershed management, and replication of successful watershed management activities in pilot sub-watersheds and protected areas. Alliances between public and private agencies and organizations form an important part of this program.

Inputs, Outputs, Activities:

FY 2004 Program:

Watershed management (\$3,172,000 DA). USAID will fund activities to test and validate principles and practices that support elements of successful watershed management. Focus will be on developing sound policies at the local level, stable funding sources, and field-based practical systems, processes, and tools required for sustainable management of the PCW. Activities, which include on-the-ground implementation of demonstration projects such as sustainable agricultural practices, wastewater management, and clean industrial production, will incorporate community participation and close collaboration with other stakeholders. Principal contractor, grantees, and agencies are the Academy for Educational Development and the Inter-Institutional Commission for the Canal Watershed.

Environmental management of protected areas (\$2,000,000 DA). Ecologically sound and economically viable activities will safeguard the long-term operation of the PCW by protecting the water supply for Panama Canal operations, industrial use, and human consumption. USAID will fund assistance to develop an effective management system for protected areas within the PCW, such as conservation plans, public/private co-management of national parks, and plans for long-term financial sustainability. In addition, assistance will help the local population and stakeholders integrate effectively to enhance on-site conservation and management. USAID-funded technical assistance (through the Parks in Peril Program) to the Government of Panama and environmental non-governmental organizations (NGOs) will complement and guide investment of funds from the new Tropical Forest Conservation Act Debt Swap for conservation of the Chagres National Park, source of more than half the fresh water required for Panama Canal operations. USAID will also fund assistance to develop environmentally sound economic options such as ecotourism. Principal contractor, grantees, and agencies are: the Academy for Educational Development, the National Environment Authority, and the Nature Conservancy.

The Peregrine Fund (\$150,000 DA). USAID-funded technical assistance will help the Peregrine Fund achieve financial sustainability.

FY 2005 Program:

In FY 2005 activities will be reprogrammed under the new Panama Country Plan (SO 525-022) within the Central America and Mexico Regional Strategy

Performance and Results: During FY 2003, USAID made significant progress toward sustainable management of the Panama Canal Watershed and its buffer areas. Strategic use of \$10 million obtained

by a Tropical Forest Conservation Act alliance to implement the conservation area plan for Chagres National Park, which is critical to the PCW, is ensuring the park's environmental and financial future. As a result of USAID's programs, local governments and NGOs are able to assume a more active role in watershed management, and the National Environment Authority is now willing to partner with NGOs and the private sector for co-management of protected areas - an important change for an institution previously reluctant to involve the community. A partnership among the Ministry of Health, the Municipality of Capira, two NGOs, and several communities helped complete a sanitation project that benefited 3,000 persons. The Panama Canal Authority and USAID signed a Memorandum of Understanding to pool resources to create an initial \$5 million incentive fund to finance demonstration activities in pilot sub-watersheds in the PCW. The newly established Inter-Institutional Commission for the Canal Watershed improved its capacity to coordinate between Government of Panama line ministries and other major stakeholders in the Panama Canal Watershed. Action plans were developed for three rural pilot sub-watersheds and one peri-urban pilot sub-watershed.

By September 30, 2004, when USAID will transition to the Central America and Mexico Regional Strategy, this program will have achieved a number of tangible results in the Panama Canal Watershed. The master conservation plan for the Chagres National Park will be completed, and will be used to guide at least five NGO grants funded under the new Tropical Forest Conservation Act debt swap. Thus, by the end of FY 2004, USAID will have initiated protected area conservation programs in the critical Chagres Rain Forest, which provides the majority of water for Panama Canal operations. In addition, USAID will have initiated at least 10 grants in at least two sub-watersheds of the PCW to demonstrate conservation practices with stakeholder participation, and will have developed improved land use plans for one other sub-watershed.

By the end of FY 2004, USAID will have completed norms and standards for development of ecotourism and management in the Soberania National Park pilot, as well as a public-private alliance to share the costs of ecotourism attractions in the park. In addition, USAID expects to develop a mechanism approved by the Government of Panama for investment of ecotourism revenues for park maintenance, as well as plans and regulations for service concessions in public parks. The Peregrine Fund, the Panamanian NGO responsible for repopulation of harpy eagles in Panama, will have bred and released 10 harpy eagles to the wild, and completed a sustainability plan and an environmental education program.

Data Sheet

USAID Mission:	Panama
Program Title:	Rural Community Development
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	525-006
Proposed FY 2004 Obligation:	\$741,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$0
Year of Initial Obligation:	FY 2002
Year of Final Obligation:	FY 2004

Summary: This program, part of the Andean Regional Initiative, provides technical assistance, training, and commodities to selected communities in Darien Province, which borders Colombia. Activities support effective governance, community institution building, small-scale social and productive infrastructure, and income-generating opportunities. In addition, this program is assisting communities and locally-elected officials to better organize in order to address defined needs and effectively articulate and advocate for Government of Panama and other assistance. USAID is also establishing alliances with private enterprises and civil society, including local and international non-governmental organizations to promote environmentally friendly economic activities such as ecotourism and handicraft production and marketing.

Inputs, Outputs, Activities:

FY 2004 Program:

Social infrastructure (\$391,000 ESF). USAID-funded technical assistance and local grants program will help selected communities design and implement small-scale social infrastructure projects, such as water and sanitation systems and school classrooms. Emphasis is on local management, self-help, and sustainability. In implementing this program, USAID will promote alliances between the private sector and local civil society organizations. The principal grantee is Pro Niños del Darien.

Organizational capacity of local government and community-based organizations (\$50,000 ESF). USAID-funded technical assistance and training will help local leaders, elected officials, and community-based organizations improve their ability to develop projects, write proposals, and implement sustainable activities. The focus of this program is on building local capacity for planning, participatory decision-making, and oversight to address community needs. The principal grantee is Pro Niños del Darien.

Productive infrastructure and income generation (\$300,000 ESF). USAID-funded technical assistance and grants will help local leaders, private enterprises, and community organizations to design, develop, seek funds for, and implement small-scale productive infrastructure such as rural road rehabilitation. This program also addresses income generation through improved agricultural production and access to markets. In implementing this project, USAID will promote alliances between the private sector and local government and civil society organizations. The principal grantee is Pro Niños del Darien.

FY 2005 Program:

This Strategic Objective ends in FY 2005.

Performance and Results: During the initial phase of the program, USAID established the groundwork for improved community planning and implementation in several communities. USAID-funded technical assistance and training helped selected communities design social and productive infrastructure projects to address local needs and priorities. Communities participated in the design of seven approved social infrastructure projects and one productive infrastructure project that is pending approval. The selected

communities are committed to the program's objectives of self-help, participation, and community development. Using a community-based approach, the platform for sustaining these activities is in place.

By program completion, 55 Darien communities will have improved their ability to work together for a common purpose and articulate community solutions to social and productive infrastructure needs. Thirty-five communities will have completed social and productive infrastructure projects, and an additional 85 small infrastructure projects will be underway. Moreover, USAID's Panamanian partner, Pro Niños del Darien will have gained capacity far beyond its traditional role of executing feeding programs for school-aged children in Darien.

Data Sheet

USAID Mission:	Panama
Program Title:	Ruling Justly
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	525-021
Proposed FY 2004 Obligation:	\$2,241,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$3,000,000 ESF
Year of Initial Obligation:	2004
Year of Final Obligation:	2008

Summary: USAID's new rule of law and governance program consolidates and continues the momentum gained in the current justice reform program. In addition to rule of law, the new program will incorporate a governance component to address transparency and accountability in both the judicial system and public management, which are critical to strengthening democracy and promoting economic growth in Panama. The goals of this program are to: 1) improve access to justice and alternative dispute resolution; 2) increase accountability and transparency in public management; and 3) strengthen administration of justice at the community level and in defense of the environment.

This strategic objective, which is part of the new Panama Country Plan under the Central America and Mexico Regional Strategy, is in the design phase. Completion and approval are expected in spring/summer 2004.

Inputs, Outputs, Activities:

FY 2004 Program:

Rule of law (\$1,241,000 ESF). USAID plans to focus technical assistance and training on: policy dialogue to promote legal and institutional reforms to improve operations of judicial institutions; promote use of oral proceedings and administrative reforms to speed up case processing; and increase the quantity and timeliness of cases resolved. USAID will provide technical assistance to improve investigation and prosecution of judicial corruption, assist the Public Ministry's Anti-Corruption Prosecutor's Office to present better cases for trial, and assist the Honor Tribunal (Disciplinary Committee) of the Panamanian Bar Association to investigate allegations of unethical conduct of practicing lawyers. USAID also intends to provide technical assistance and training to the Solicitor General's Office to strengthen administration of justice at municipal and lower, district council levels. To complement the Panama Canal Watershed and environmental management programs, USAID plans to address problems in administration of justice related to environmental law and regulations. This activity will respond to serious unaddressed problems of illegal logging, hunting, and waste disposal in both protected and unprotected areas of Panama. Contracts and grants will be competed.

Government transparency and accountability (\$1,000,000 ESF). USAID plans to fund technical assistance and training to strengthen civil society capacity to provide government oversight and advocate for reforms needed to improve judicial processes, governance, and respect for human rights. In addition, USAID is considering strengthening a nascent public employee inter-institutional anti-corruption network and training journalists and non-governmental organizations in investigation of and reporting on corruption. Contracts and grants will be competed.

FY 2005 Program:

Rule of law (\$2,000,000 ESF). USAID plans to continue the activities described above to strengthen the rule of law in Panama.

Government transparency and accountability (\$1,000,000 ESF). USAID plans to continue the activities described above to improve government oversight, advocate for reforms, and address corruption in Panama.

Performance and Results: Although this strategic objective will not begin until late FY 2004, elements of this strategy are a follow on to the previous strategy. USAID's administration of justice program has succeeded in making pre-trial detention a public issue. In FY 2003, alternative dispute resolution mechanisms gained ground as an efficient way to resolve disputes, the judicial registry increased timely access to court decisions, and the quality of administrative justice improved at the community level. The Supreme Court of Justice, the Public Defenders Institute, the Judicial School, and the Citizens Alliance for Justice developed institutional foundations for strategic planning and action. The stage is set for fundamental changes in the Panamanian justice system. By the end of FY 2004, USAID expects to have completed the following results: install a case tracking system in the civil and commercial Supreme Court chambers; publish operational actions plans for the Supreme Court's Judicial School and the Public Defender's Office; extend alternative dispute resolution to two new mediation centers; develop a code of ethics for judges; and prepare and implement an ethics training course for government officials.

By program completion, USAID expects that national and local-level government institutions and courts will be more accountable and managed more transparently; citizens and businesses will have better access to justice and alternative dispute resolution; and citizens will have more voice in determining public policy.

Data Sheet

USAID Mission:	Panama
Program Title:	Economic Freedom
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	525-022
Proposed FY 2004 Obligation:	\$0
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$5,446,000 DA
Year of Initial Obligation:	FY 2005
Year of Final Obligation:	FY 2008

Summary: USAID's program to sustainably manage the Panama Canal Watershed (PCW) and its buffer areas will be incorporated into a new strategic objective in FY 2005. The program will include technical assistance, training, and commodities to promote policy reforms, behavioral change, and a more participatory and practical approach to watershed and protected areas management. Successful watershed management activities in pilot sub-watersheds and protected areas will be replicated. Alliances between public and private agencies and organizations will form an important part of this program.

This strategic objective, which is part of the new Panama Country Plan under the Central America and Mexico Regional Strategy, is a follow on to the current program. Approval is expected in summer 2004.

Inputs, Outputs, Activities:

FY 2004 Program:

This Strategic Objective begins in FY 2005.

FY 2005 Program:

Watershed management (\$3,196,000 DA). USAID will fund technical assistance to test and validate principles and practices that support elements of successful watershed management. Focus will be on developing sound policies at the local level, stable funding sources, and field-based practical systems and processes required for sustainable management of the PCW. Activities, which will include on-the-ground implementation of demonstration projects such as sustainable agricultural practices, wastewater management, and clean industrial production, will incorporate community participation and close collaboration with other stakeholders. Principal contractor, grantees, and agencies will be the Panama Canal Authority, the Academy for Educational Development, and the Inter-Institutional Commission for the Canal Watershed.

Environmental management of protected areas (\$2,100,000 DA). USAID will provide assistance to develop an effective management system for protected areas in the PCW. Ecologically sound and economically viable activities will safeguard the long-term operation of the PCW by protecting the water supply for Panama Canal operations, human consumption, and industrial use. Activities will include development of conservation area plans, environmentally sound economic opportunities, and public/private co-management of national parks. USAID-funded technical assistance (through the Parks in Peril Program) to the Government of Panama and environmental non-governmental organizations (NGOs) will complement and guide investment of funds from the new Tropical Forest Conservation Act Debt Swap for conservation of the Chagres National Park, source of more than half the fresh water required for Panama Canal operations. USAID will also fund assistance to develop environmentally sound economic options such as ecotourism. In addition, USAID plans to provide technical assistance to the National Environment Authority (ANAM) to help the organization integrate stakeholders into conservation and management of protected areas and reform norms and standards for protected areas. Planned technical assistance to ANAM will also help reform the organization's financial practices to allow it to

operate and maintain basic protected areas park infrastructure to facilitate ecotourism. Principal contractor, grantees, and agencies will be the Academy for Educational Development, the National Environment Authority, and the Nature Conservancy.

The Peregrine Fund (\$150,000 DA). USAID plans to provide funding to support environmental education, breeding and release of harpy eagles, and to assist the Peregrine Fund achieve financial sustainability.

Performance and Results: By the end of FY 2005, USAID expects ten additional pilot demonstration projects to be underway employing best practices, appropriate technologies, and promoting sound policies to facilitate sustainable management of the PCW. USAID expects that seven demonstration projects will be completed and at least five grantees strengthened by implementing these demonstration projects. Construction of the first small town sanitation system through a public/private development alliance should be completed and institutional arrangements in place to operate the system. At least two new PCW policies dealing with incentives and penalties will be developed and promoted to address deficiencies in legal, policy, and regulatory instruments that hinder sound environmental management of the PCW. Stakeholder committees will be operating in two pilot sub-watersheds employing participatory planning and decision-making processes. The Inter-Institutional Commission for the Canal Watershed will operate a PCW environmental monitoring and information system for use by members and the general public.

By the end of FY 2005, USAID expects to have completed a policy and regulatory framework for involving NGO and private sector partners in the management of Soberania and Chagres National Parks. The Chagres Debt Swap Fund will be functioning and issuing grants to NGOs to implement activities in the Chagres Park and buffer areas as guided by the Conservation Area Plan and Master Plan to conserve and protect this Park, which is critical to Panama Canal operations. A public/private development alliance will be in place to initiate ecotourism in Soberania National Park. ANAM will have established a complementary ecotourism investment mechanism to collect and reinvest revenues generated from ecotourism for Soberania Park operations and maintenance. At least three new grants will be issued to NGOs to promote rational and sustainable economic opportunities in the protected areas of the PCW.

The Peregrine Fund is expected to breed and release ten additional harpy eagles in Panama and other countries of Central America. The organization will continue implementation of its sustainability plan and expects to raise \$100,000 to help underwrite its operations in Panama. The Peregrine Fund will expand its environmental education program to other areas of Panama and Central American where it plans to release harpy eagles.

By program completion, USAID will have replicated its successful environmental management model to a number of the subwatersheds of the PCW; reformed/modified existing natural resources policies for improved watershed management in the PCW; extended the successful Soberania ecotourism pilot to the Panamanian National System of Protected Areas. As a result of this program: national environmental authorities, the judicial system, and local government authorities will apply and enforce environmental laws and regulations; stakeholders will actively participate in management decisions related to protected and unprotected areas in the PCW; and sustainable financial mechanisms for environmental management of the PCW and operation and maintenance of infrastructure for ecotourism in the National System of Protected Areas will be functioning.

Panama PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2002 Actual	FY 2003 Actual	FY 2004 Current	FY 2005 Request
Development Assistance	4,500	5,499	5,322	5,446
Economic Support Fund	4,205	3,000	2,982	3,000
Total Program Funds	8,705	8,499	8,304	8,446

STRATEGIC OBJECTIVE SUMMARY

525-004 Protection of the Panama Canal Watershed				
DA	4,181	5,499	5,322	0
525-005 Judicial Reforms				
ESF	1,205	750	0	0
525-006 Rural Community Development				
ESF	3,000	2,250	741	0
525-021 Ruling Justly				
ESF	0	0	2,241	3,000
525-022 Economic Freedom				
DA	0	0	0	5,446

TRANSFER				
DA	319	0	0	0

Mission Director,
Leopoldo Garza