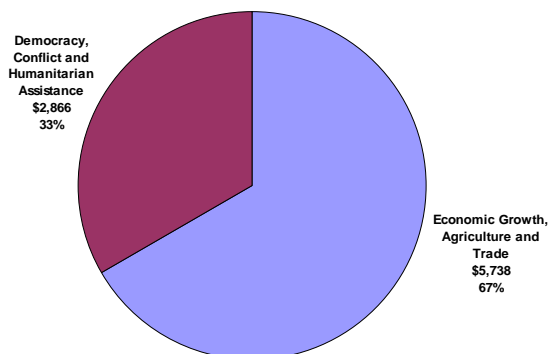
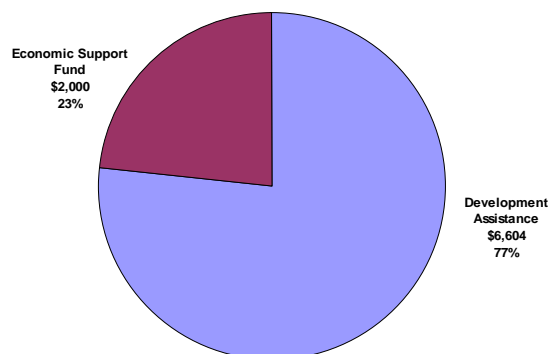


# Panama

**FY 2006 Assistance by Sector**



**FY 2006 Assistance by Account**

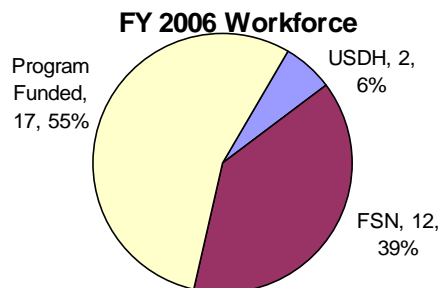


## Objectives and Budget

Objective	SO Number	FY 2004	FY 2005	FY 2006
Rural Community Development	525-006		750	
Ruling Justly	525-021	1,000	2,226	2,866
Economic Freedom	525-022	5,622	5,125	5,738
<b>Total (in thousands of dollars)</b>		<b>6,622</b>	<b>8,101</b>	<b>8,604</b>

## Administrative Expenses and Workforce

Administrative Expenses	FY 2004	FY 2005	FY 2006
Mission Allocation	951	828	659
USDH Salaries & Benefits	298	275	281
Program Funds	1,523	1,523	1,523
<b>Total (in thousands of dollars)</b>	<b>2,772</b>	<b>2,626</b>	<b>2,463</b>



**Mission Director:**  
(Acting) Moh Kermit

## Panama

**The Development Challenge:** Panama's economic and social indicators hide the somber reality of serious under-development in some regions of the country, and security challenges that threaten stability and impede economic development. In 2003, the country's Gross Domestic Product (GDP) totaled \$12.2 billion and the annual per capita income was over \$3,500, making it one of the middle income countries in Latin America. The literacy rate is 92.5% and life expectancy is relatively high. Although Panama has the highest GDP per capita in Central America, it has the second worst income distribution in Latin America, with about 40% of the population living in poverty. The unemployment rate is 14%, and 30% of the labor force is underemployed. Panama's dual economy consists of a modern and relatively prosperous service sector, including the Panama Canal, banking, flagship registry, and tourism, which accounts for more than 75% of GDP, alongside a traditional, and considerably poorer, rural and agrarian sector.

The transition to democracy in Panama began in 1990 after 20 years of military dictatorship. While there has been significant progress toward a viable democracy, the process is still evolving. Panama's constitution grants strong executive powers to the central government, and gives considerable immunity to legislators, judges, and high-ranking executive branch officials. There are no clear or accessible points of entry for citizens or civil society organizations to influence decision making. Concepts of conflict of interest and transparency are virtually absent from political discourse and practices. Corruption is prevalent and public opinion surveys place corruption as a primary concern, second only to unemployment. In the meantime, press gag laws remain in effect while leadership of the judiciary reform movement falls to a nascent civil society.

Degradation of natural resources, especially water, is taking place at an accelerating and alarming pace. Natural forests lack proper management and protection. The unsustainable and frequently illegal exploitation, trade and use of timber, plants, wildlife, and fisheries are widespread. Poor forest management and inadequate land use practices have a negative impact on biodiversity, soil stability, water quality and quantity, coral reefs, mangroves, and fisheries, all key indicators of a healthy ecosystem. The sustainability of critical watersheds, especially the Panama Canal Watershed, and the environment in general is influenced by governance issues. In Panama, the lack of local empowerment, adequate conservation policies and practices, and deficiencies in the environmental justice system stand in the way of local application and enforcement of environmental regulations. Rural residents have few alternatives for income generation; therefore many follow destructive land use practices and further stimulate urban migration.

Reducing the various constraints to starting a business is a necessary step toward increasing private investment and generating employment. The new administration has set several goals, including "economic development with a human face", and continued bilateral negotiations for a free trade agreement with the United States. The bilateral negotiations leading to a free trade agreement will provide new opportunities for Panama to reduce these constraints and increase and sustain its pace of economic growth.

Fiscal consolidation underpinned by structural reform is essential for keeping public debt under control in Panama. The main challenges are maintaining a sound fiscal policy through compliance with fiscal rules, addressing the urgent need for social security reform, and stepping up the pace of economic growth. While the total public sector debt appears sustainable, there is little room for counter cyclical fiscal policy. External debt in December 2003 was \$6.5 billion, with debt servicing absorbing 65% of the Government's budget revenue.

Panama has historic ties and continued relevance to American foreign policy. The country is central to U.S. homeland security, democracy and economic prosperity because of the large volume of commerce moving through the Panama Canal. Panama's position as a regional banking center and proximity to Colombia are other key factors in U.S. national interests that support the country's democratic course and sustainable economic development.

**The USAID Program:** FY 2005 and FY 2006 funds will be used to implement programs in support of greater government transparency and accountability, increased trade and investment, and improved management of critical watersheds. The Ruling Justly Objective will promote continued progress in transparency and accountability with the participation of civil society in advocacy and oversight of government. The new Economic Freedom Objective will stimulate economic growth by reducing barriers to trade and investment and encouraging market integration. It will also foster sustainable development in the use of natural resources that balances economic development and environmental protection, particularly water to the Panama Canal Watershed (PCW). The Darien Special Objective will also support activities that strengthen selected communities in the Darien region.

**Other Program Elements:** USAID's Bureau for Latin America and Caribbean funds activities in Panama through its regional programs. The Parks-in-Peril program mitigates threats to conservation and biodiversity in the Amistad Biosphere Reserve. A trade capacity building program is assisting negotiations for a bilateral free trade agreement between Panama and the United States. The Central America Regional Program (G-CAP) implements a range of critical economic and environmental programs in Panama that support priority foreign policy interests in the region, including support for increased participation in global markets; short-term technical assistance to help small producers supply consistent quantities of high-quality Panamanian coffee for domestic and export markets; public/private alliances that promote 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 and model impacts on climate for decision making related to climate change vulnerability; and improved environmental management in the Mesoamerican Biological Corridor. G-CAP also improves Panama's capacity to more fully address the HIV/AIDS crisis.

**Other Donors:** Principal donors in Panama, in addition to the United States, include the Inter-American Development Bank (IDB), the European Union (EU), Spain, Japan, the United Nations Development Program (UNDP), and the United Nations Food and Agriculture Organization (FAO). The largest donor in democracy is the IDB, which supports improvements in the quality of the country's legal and judicial services to strengthen the rule of law and consolidate democracy. Spain, the EU, and the UNDP focus their assistance on the judicial sector and tourism. Japan supports environmental education and training in forestry and agro-forestry techniques. Both Japan and the IDB fund activities promoting the conversion of destructive agricultural practices to environmentally-friendly agricultural production in the PCW. These activities complement USAID's efforts as the major donor in the PCW. Assistance from the FAO supports the Ministry of Agricultural Development in its implementation of land use changes in the rural eastern region of the PCW. USAID is the only donor working in the area of transparency and accountability.

## Panama PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2003 Actual	FY 2004 Actual	FY 2005 Current	FY 2006 Request
Development Assistance	5,499	5,622	5,125	6,604
Economic Support Fund	3,000	1,000	2,976	2,000
<b>Total Program Funds</b>	<b>8,499</b>	<b>6,622</b>	<b>8,101</b>	<b>8,604</b>

STRATEGIC OBJECTIVE SUMMARY				
525-004 Protection of the Panama Canal Watershed				
DA	5,499	0	0	0
525-005 Judicial Reforms				
ESF	750	0	0	0
525-006 Rural Community Development				
ESF	2,250	0	750	0
525-021 Ruling Justly				
DA	0	0	0	866
ESF	0	1,000	2,226	2,000
525-022 Economic Freedom				
DA	0	5,622	5,125	5,738

Mission Director (Acting),  
Kermit Moh

## Data Sheet

<b>USAID Mission:</b>	Panama
<b>Program Title:</b>	Rural Community Development
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	525-006
<b>Status:</b>	Continuing
<b>Planned FY 2005 Obligation:</b>	\$750,000 ESF
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2006 Obligation:</b>	\$0
<b>Year of Initial Obligation:</b>	2002
<b>Estimated Year of Final Obligation:</b>	2005

**Summary:** USAID's program to strengthen selected communities in the province of Darien, along the Colombian border, is part of the Andean Regional Initiative. USAID supports effective governance, community institution building, small-scale social and productive infrastructure, and income-generating opportunities. This program assists local communities and locally elected officials to effectively address defined needs and better articulate and advocate for the government's assistance. USAID also promotes strategic development alliances with private enterprises and civil society, including local and international nongovernmental organizations to develop environmentally friendly economic activities.

### Inputs, Outputs, Activities:

**FY 2005 Program:** Expand and Improve Access to Economic and Social Infrastructure (\$700,000 ESF). USAID-funded technical assistance and local grants will help 15 communities design and implement small-scale social infrastructure projects, including eight potable water supply facilities. USAID will also fund small-scale productive infrastructure and income-generating projects, including a landfill and recycling center, rural road improvements, three ecotourism activities, a slaughterhouse, and a tree and vegetable nursery. Program emphasis will focus on local management, self help, and sustainability. USAID assistance will promote development alliances with the private sector and local civil society organizations. The principal grantee is Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA).

Strengthen Democratic Local Government and Decentralization (\$50,000 ESF). USAID-funded training and technical assistance for local leaders, elected officials, and community organizations in 15 communities will develop capacity for planning, participatory decision making, and public oversight. This assistance will help local governments and organizations address community needs. The principal grantee is ACDI/VOCA.

**FY 2006 Program:** There is no proposed FY 2006 obligation.

**Performance and Results:** In FY 2004, 55 communities improved their capacity to strategically assess their needs and establish development priorities, resulting in more effective governance, community institution building, and completion of small-scale social and productive infrastructure and income-generating opportunities. By the end of the program, 45 social infrastructure and 35 productive infrastructure projects will have been completed, benefiting more than 15,600 people. At least 55 communities will have a community development strategy, and communities will have improved their capacity to work together for a common purpose and articulate community solutions to social and productive infrastructure needs.

## US Financing in Thousands of Dollars

Panama

525-006 Rural Community Development	<b>ESF</b>
<b>Through September 30, 2003</b>	
Obligations	5,250
Expenditures	434
Unliquidated	4,816
<b>Fiscal Year 2004</b>	
Obligations	0
Expenditures	2,443
<b>Through September 30, 2004</b>	
Obligations	5,250
Expenditures	2,877
Unliquidated	2,373
<b>Prior Year Unobligated Funds</b>	
Obligations	0
<b>Planned Fiscal Year 2005 NOA</b>	
Obligations	750
<b>Total Planned Fiscal Year 2005</b>	
Obligations	750
<b>Proposed Fiscal Year 2006 NOA</b>	
Obligations	0
Future Obligations	0
Est. Total Cost	6,000

## Data Sheet

<b>USAID Mission:</b>	Panama
<b>Program Title:</b>	Ruling Justly
<b>Pillar:</b>	Democracy, Conflict and Humanitarian Assistance
<b>Strategic Objective:</b>	525-021
<b>Status:</b>	New in FY 2004
<b>Planned FY 2005 Obligation:</b>	\$2,226,000 ESF
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2006 Obligation:</b>	\$866,000 DA; \$2,000,000 ESF
<b>Year of Initial Obligation:</b>	2004
<b>Estimated Year of Final Obligation:</b>	2008

**Summary:** This objective is aimed at improving civil society advocacy for justice reforms and access to justice, strengthening government oversight by civil society, and improving government transparency and accountability. Grants, training, and technical assistance to civil society organizations (CSOs) will strengthen their social audit/government monitoring functions and catalyze Panamanian focus on issues such as press gag laws, overly broad legislative privileges, and immunities for government officials. Training and technical assistance programs for public institutions will help the Government of Panama (GOP) prevent, investigate, and prosecute corruption cases.

### Inputs, Outputs, Activities:

**FY 2005 Program:** Improve Justice Sector/Legal Framework (\$700,000 ESF). USAID is building the capacity of CSOs to advance momentum for justice reforms and advocate for greater access to prompt, fair, and affordable ways to resolve disputes. USAID-funded training for the CSO coalition, Citizens' Alliance for Justice, will strengthen the advocacy and oversight skills of the coalition, build its fundraising capabilities to ensure its future financial sustainability, and facilitate incorporation of gender analysis into the coalition's program design, implementation, and monitoring. In addition, USAID will provide 10 grants to local nongovernmental organizations (NGOs) to foster community-level advocacy for justice reform and access to justice. Principal contractors and grantees are being selected through a competitive process.

Promote and Support Anticorruption Reforms (\$1,526,000 ESF). USAID will fund technical assistance and training to improve the effectiveness of key public sector entities to reduce corruption within the Government. For example, USAID will fund activities that will improve the capacity of the new National Anticorruption Council, the Controller General's Office and the Public Ministry to prevent, investigate and prosecute corruption cases. With USAID technical assistance, the Solicitor General's Office will develop an ethics code for the GOP, and train civil servants on the ethics code. In addition, USAID will fund 10 training workshops to strengthen civil society's ability to conduct social audits and monitor municipal government projects, and engage government entities and businesses on a national anticorruption strategy and action plan. USAID will also fund technical assistance to strengthen investigative reporting and increase public access to information. Principal contractors and grantees are being selected through a competitive process.

**FY 2006 Program:** Improve Justice Sector/Legal Framework (\$1,500,000 ESF). USAID plans to continue support for advocacy activities of the Citizens' Alliance for Justice to consolidate the base for justice reform. As political will unfolds, USAID may work more directly with justice sector institutions, such as the Judiciary, the Public Ministry, the Public Defenders' Institute, and the Solicitor General's Office to carry out selected reforms. USAID may provide technical assistance that fosters reliance on precedent to bring about stability and predictability in court decisions. Civil society activities that promote oversight of the judiciary may receive funding.

Promote and Support Anticorruption Reforms (\$500,000 ESF, \$866,000 DA). USAID plans to continue to work with CSOs and the media to strengthen their watchdog role, which will help the Panamanian administration stay the course in its anticorruption campaign promises. USAID may support activities with the Judiciary and the Ombudsman's Office that will improve their capacity to prevent and deal effectively

with corruption cases. USAID may deepen government oversight activities by funding technical assistance and training for selected municipalities and local leaders to increase transparency, accountability, and access to justice. USAID may also fund demonstration activities that increase transparency and accountability in targeted government institutions.

**Performance and Results:** In FY 2004, USAID's activities under the bridge program contributed to a proactive civil society coalition that helped maintain momentum for justice sector reform, and increased participation by civil society in transparency and accountability advocacy activities. The capacity of journalists and civil society activists to investigate and report on corruption cases improved. In addition, a journalist-civil society alliance network was formed.

By program completion, civil society's ability to conduct social auditing will help reduce corruption by fostering transparency and accountability in key government entities. There will be greater public access to information. Investigative journalism and reporting on corruption will be more effective. CSOs working in partnership with municipalities to oversee community development activities will have strengthened democracy activities at the grassroots. Civil society advocacy for reform will have promoted selected justice and administrative reforms that will strengthen rule of law and increase public confidence in the integrity of the judiciary. Access to justice and to prompt, fair, and affordable avenues to resolve disputes will improve.



## US Financing in Thousands of Dollars

Panama

	DA	ESF
525-021 Ruling Justly		
<b>Through September 30, 2003</b>		
Obligations	0	0
Expenditures	0	0
Unliquidated	0	0
<b>Fiscal Year 2004</b>		
Obligations	0	1,000
Expenditures	0	0
<b>Through September 30, 2004</b>		
Obligations	0	1,000
Expenditures	0	0
Unliquidated	0	1,000
<b>Prior Year Unobligated Funds</b>		
Obligations	0	0
<b>Planned Fiscal Year 2005 NOA</b>		
Obligations	0	2,226
<b>Total Planned Fiscal Year 2005</b>		
Obligations	0	2,226
<b>Proposed Fiscal Year 2006 NOA</b>		
Obligations	866	2,000
Future Obligations	0	12,908
Est. Total Cost	866	18,134

## Data Sheet

<b>USAID Mission:</b>	Panama
<b>Program Title:</b>	Economic Freedom
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	525-022
<b>Status:</b>	New in FY 2004
<b>Planned FY 2005 Obligation:</b>	\$5,125,000 DA
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2006 Obligation:</b>	\$5,738,000 DA
<b>Year of Initial Obligation:</b>	2004
<b>Estimated Year of Final Obligation:</b>	2008

**Summary:** This objective is focused on increasing competitiveness to take advantage of expanding trade and investment opportunities, and improving the management and conservation of critical watersheds. Core activities are designed to: build trade capacity, reduce business constraints, and foster market integration; and promote sound environmental governance through policy and legal reforms, behavioral change, and a more participatory and practical approach to watershed and protected areas management.

### Inputs, Outputs, Activities:

**FY 2005 Program:** Increase Participation in Global Trade and Investment (\$500,000 DA). To build trade capacity, USAID will fund short-term technical assistance and training for selected public and private sector entities during and after negotiations for a bilateral free trade agreement with the United States. USAID assistance will help accelerate economic growth by reducing business constraints due to policy, regulatory and legal conditions in trade-related areas, such as customs procedures, sanitary and phytosanitary measures, labor issues, government procurement, and intellectual property rights. It will also fund activities that support the development of business clusters in key sectors with potential to compete in the global economy, such as tourism and some agro-industrial activities. Where there are synergies, USAID will support activities that consolidate social, environmental, and democratic reforms. Principal contractors and grantees have not yet been selected.

Improve Sustainable Management of Natural Resources and Biodiversity Conservation (\$4,625,000 DA). USAID will continue to fund pilot activities to test and validate principles and best practices on watershed management to protect key watersheds within the Panama Canal Watershed (PCW). USAID will fund technical assistance for on-the-ground implementation of demonstration activities, such as sustainable agricultural practices that reduce pollution. Technical assistance and training will support the development of sound policies at the local level, stable funding sources, and field-based practical systems, processes, and tools required for improved management and conservation of critical watersheds. USAID will also support demonstration activities, such as wastewater management and clean industrial production. To foster sustainable tourism in protected areas, USAID will fund technical assistance related to policy reform, modifications of regulations, creation and implementation of new administrative systems for protected areas, and institutional strengthening of government institutions to more effectively manage tourism. USAID-funded technical assistance will help authorities develop an environmental governance program for improving enforcement of environmental laws and regulations and participation by stakeholders in the management of key watersheds. A grant to the Peregrine Fund, which is contributing to the repopulation of the harpy eagle in the PCW, will help the organization implement its sustainability plan to underwrite its operations in Panama. Principal contractors, grantees, and local partners include the Academy for Educational Development, the Panama Canal Authority, the Inter-Institutional Commission for the Canal Watershed, the National Environmental Authority, the Ministry of Health, the Ministry of Agriculture, the National Institute of Water and Sewage, the Nature Conservancy, and the Peregrine Fund.

**FY 2006 Program:** Increase Participation in Global Trade and Investment (\$1,250,000 DA). USAID plans to continue to fund technical assistance and training to promote market integration by reducing

business constraints and fostering the development of competitive clusters in key sectors of the economy identified by the private sector. USAID intends to fund technical assistance in areas that will help trade development, such as financial services, customs procedures, sanitary and phyto-sanitary measures, technical barriers to trade, competitiveness, business development services, and intellectual property rights. Principal contractors and grantees will be selected in FY 2005.

Improve Sustainable Management of Natural Resources and Biodiversity Conservation (\$4,488,000 DA). USAID plans to continue supporting policy and legal reforms, participatory and practical approaches to watershed management, and activities in environmental governance. The program intends to fund technical assistance to implement demonstration activities in selected sub-watersheds. USAID may use funds to support the development of sound policies at the local level, stable funding sources, and field-based practical systems, processes, and tools that will improve management of key watersheds, including the PCW. USAID intends to continue on-the-ground implementation activities that promote wastewater management and clean industrial production in selected critical watersheds. USAID also plans to fund technical assistance to build on-site capacity to improve protection and management of protected areas. USAID plans to develop sustainable ecotourism activities through public-private alliances, and may support activities to develop clusters around other attractions, training of government officials to better manage and supervise tourism activities, and incentive funds to leverage private sector contributions for investments in tourism-related infrastructure. Funding of activities that will enhance sustainable financing for critical watershed protection and conservation may continue. USAID may also replicate sustainable tourism activities in other protected areas based on the lessons learned from the Soberanía National Park pilot activity. Principal contractors, grantees, and local partners would remain the same.

**Performance and Results:** In FY 2004, the results obtained under the Objective "Sustainable Management of the Panama Canal Watershed and Buffer Areas", which preceded this Objective, included a fully operational \$5.0 million Incentive Fund to finance demonstration activities in pilot sub-watersheds in the PCW. This financing mechanism is an important milestone towards financial sustainability of environmental management in the PCW. Of 16 demonstration activities approved, 10 are underway. These activities are helping to improve local governance by encouraging active stakeholder participation. The National Environmental Authority, nongovernmental organizations, and community members agreed to a co-management scheme for the Chagres National Park, paving the way for long-term financial and environmental sustainability.

By program completion, Panama's economic readiness and responsiveness to opportunities for trade and investment will improve. USAID's trade capacity building assistance will help Panama transition to a more open economy for it to take advantage of expanding trade opportunities. Continued improvement in the management and conservation of critical watersheds will lead to better environmental policies, regulatory and institutional frameworks. With USAID support, these policies and frameworks will become more effective and strengthen environmental governance in Panama by involving local governments, communities, and the private sector in more sustainable management and conservation of critical watersheds.

## US Financing in Thousands of Dollars

Panama

	DA	ESF
525-022 Economic Freedom		
<b>Through September 30, 2003</b>		
Obligations	0	0
Expenditures	0	0
Unliquidated	0	0
<b>Fiscal Year 2004</b>		
Obligations	5,338	500
Expenditures	0	0
<b>Through September 30, 2004</b>		
Obligations	5,338	500
Expenditures	0	0
Unliquidated	5,338	500
<b>Prior Year Unobligated Funds</b>		
Obligations	0	0
<b>Planned Fiscal Year 2005 NOA</b>		
Obligations	5,125	0
<b>Total Planned Fiscal Year 2005</b>		
Obligations	5,125	0
<b>Proposed Fiscal Year 2006 NOA</b>		
Obligations	5,738	0
Future Obligations	14,799	0
Est. Total Cost	31,000	500