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PUBLIC SECTOR REFORM IN PANAMA

Recent events in Panama have created a tremendous opportunity for the Panamanian people and their government. This opportunity, if seized promptly and firmly, will allow Panama to overcome decades of mismanagement and abuse of authority and set the stage for rapid political and economic advancement. Panama has suffered terribly from military dictatorship. The last few years, when General Noriega exercised total control, have caused the most serious damage to the country's political institution. This has been exacerbated by the economic sanctions and the military intervention. The military regime having now been swept away, the government of Panama, together with the private sector, face the challenge of placing Panama squarely on the road to prosperity for all its citizens in an atmosphere of freedom, under democratic rule.

A. Need for Reform

The private sector needs help to get back on its feet. Such help, however, can probably be limited to a few areas, particularly the need for credit. With the availability of credit, and with the removal of many of the regulations and exactions which have so often trammelled in the past, the private sector will be able to regain the strength it had shown until recently. Fortunately, entrepreneurs and the entrepreneurial spirit exist in Panama and do not have to be created. In the last twenty years, however, increasing numbers of state-owned enterprises and, worse yet, companies owned by the PDF and individual military officers, have competed unfairly with the private sector. Seizure of companies bought or stolen by the military and divestiture of them and the state-owned enterprises will be a dynamic stimulus to long-term economic growth.

The public sector presents a very different picture. To a certain extent, it has always been fertile soil for corruption and incompetence which reached new heights beginning with the advent of military dictatorship in 1968.

Military dictatorships present a classic pattern of diversion of funds and patronage throughout the public service. Noriega, in addition, shifted the locus of decision-making from the President's office to the Commandancia. This shift assured that corruption would be used to further the goals of the military, increasingly concentrating power of all kinds in their hands. The ordinary Panamanian citizen had no recourse.

Because of historical problems and lack of a prior effective public sector, change for Panama will not come easy.

To ensure that resources are directed for the national good, to restore freedom of action to the individual citizen, to provide necessary government services fairly, efficiently and in a timely fashion, and to guarantee to all the protection of the law, requires a government with the capacity to govern and an effective public service. It is the public sector which has to provide a friendly environment within which the private sector can reestablish itself to provide jobs and economic growth. It is the public sector which will have to provide important basic services required by the citizens of Panama, particularly those at lower economic levels.

Achieving these important objectives will require a total refocusing of the public service, the quick development of civilian decision-making capacity, the establishment of effective management systems to minimize opportunities for corruption, and, at the same time, reducing the size of the existing bloated - and largely incompetent - bureaucracy.

This effort will require substantial external collaboration. Particular care must be taken, however, to assure that the results takes into account the historical political, cultural and social context of Panama. Further, the resulting actions must be regarded by the Panamanians as their own program to rebuild their society, through their government institutions, in support of their own national objectives, not those of the United States or any other external entity.

B. Suggested Approaches to Reform

1. Panamanian Counterpart. From information which has reached the U.S., it appears that the new leadership in Panama has already begun to tackle many of the problems discussed above. Although there are undoubtedly some very able people in the new government, they are probably spread very thin, with a tremendous agenda, an increasingly impatient public, and very meager institutional support. Moreover, many of the support elements are probably the wrong kind. The government should consider

creating a small group of "wise men" to advise in this effort, reporting directly to the President or one of the Vice Presidents. There should also be a key official, probably a Vice President, placed in charge of implementation. The experience and qualification of the members of this group would be crucial to its success.

Outlined below are some of the management areas worthy of early attention by the new government:

(a) Institutional Support for the President. Areas for consideration include a review of the decision-making machinery to be used by the President and the Ministers, approaches to the coordination of the planning and activities of the various Ministries, and effective relations between the National Assembly and the Administration.

We are told that outstanding individuals have been appointed to head the Contraloria and the National Bank. They alone will not be able to do all that must be done. Coordinating economic policy must be accomplished among these institutions and the Ministers of Finance and Planning, and perhaps other Ministries and Agencies as well. Systems to guarantee the effective execution of decisions taken at the top will have to be established. But systems alone are not enough in the face of a bureaucracy chosen for its political loyalty above its competence, unused to working for the objectives of its institution, and accustomed to seek personal advantage from public positions.

(b) Financial Management. Panama will have to install quickly certain basic financial control. Otherwise, the new government will run the risk that funds will be diverted by those bureaucrats used to doing so, and the President, some months hence, will find himself having to defend his government against charges that it is as corrupt as its predecessors. Public confidence would suffer greatly.

Establishing a more comprehensive and effective accounting and audit system will require much greater effort over a longer period. Outside organizations might also be involved, such as the Panamanian branch of one of the internationally recognized accounting firms.

Corruption-free customs and taxation bureaucracies need to be established and controls must be instituted to monitor their performance. Fiscal policy reforms should be part of any restructuring.

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(c) Personnel Management. The new government needs to plan and put in place immediately the framework for a personnel system that will recruit, retain, promote and dismiss on the basis of merit and performance. From the outset, it will need to have built-in protection against patronage and political preference. A special, longer-term effort will need to be made with respect to employee and executive-level training and development and redesign of those elements of the personnel system found to be deficient. Once the new government starts down the road of patronage, it will be virtually impossible to reverse.

(d) Delivery of Services. The responsiveness of the bureaucracy must be dramatically improved. Panamanians coming to government offices for services, such as approvals or processing of documents, should be able to expect that they will be seen promptly, that the services will be provided, and that the cost will be no more than the legal fee. The organization and procedures for the delivery of services such as health and education provided by the national government need to be reviewed. Particular attention needs to be given to slow and cumbersome systems and to vulnerability to diversion of funds. Political preference with regard to who receives such services is also a problem to be confronted.

C. The Role of the Institute of Public Administration

The issues outlined above reflect some of the areas in which new governments coming into power after a dictatorship has been overthrown or following a military conflict usually have a particular need to move quickly. Yet these governments often initially lack the time and the professional capacity required to move in so many important areas as quickly as is needed.

IPA can be of assistance. It is suggested that a short visit be scheduled as soon as possible. A small team in less than a week can ascertain what efforts are underway or planned toward public sector reform. If the idea of a group of "wise men", or some similar arrangement meets with acceptance, an outline of a strategy for public sector reform to be used as its agenda could be sketched during that visit. Vice Presidents Arias Calderon and Ford would seem to be of key importance to this reconnaissance visit.

Upon the creation of the "wise men's" group, IPA would be prepared to send a team of counselors representing the various disciplines identified for appropriate periods. The members of this team would help the group select areas for public sector reform and would provide their experience in working with the members to devise appropriate means of implementing the reforms chosen.

Funding for IPA assistance could, of course, be solicited from A.I.D.. Other potential sources include the UNDP. For the sake of both speed and the desire to minimize U.S. Government participation in this very internal process, the government should consider funding IPA's services itself.

Failure to address the need for public sector reform on a professional basis, one that balances protections against corruption with the need for capacity to act will severely jeopardize the ability of the government to meet its objectives. Inability to succeed in these critical directions makes a government vulnerable to the problems now faced by Mrs. Aquino in the Philippines. Although personally still popular and regarded as a person with integrity, her failure to manage the government has seriously undermined her support because of a widespread view that she has unintentionally permitted patronage and incompetence to dominate the new government. This was the basic cry of those who attempted the recent coup. During my recent visit to Manila, I was surprised at how many of her former supporters share these criticisms even though they opposed the attempted coup. The current experience of the Philippines is not unusual.

Any assistance we provide will need to be done on a collaborative basis with the people in Panama City. We should not - and will not - attempt to prescribe an organization for the Panamanian government or the relationship between the President and his Cabinet.

Decisions have to be made not only by the Panamanians, but perceived as such. We believe we can be very helpful, however, in terms of providing information about experiences in other countries, making a number of specific suggestions, and facilitating their thinking through what needs to be done and on what time-table. We would hope that this project could be recognized as a team effort in which the role of the U.S. people would be handled on a low key basis, and the Panamanians would feel a genuine sense of ownership in the resulting recommended actions.