

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **PANAMA**

### **PROGRAM TO IMPROVE HOUSING CONDITIONS**

**(PN-L1002)**

### **LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1. Annual work plan	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1599786">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1599786</a>
2. Environmental and Social Management Report	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1598948">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1598948</a>
3. Procurement plan	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1583640">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1583640</a>
4. Monitoring and evaluation arrangements	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1649070">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1649070</a>
5. Safeguard Screening Form for classification of projects (SSF)	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1650469">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1650469</a>
<b>OPTIONAL</b>	
1. Operating Regulations	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1559602">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1559602</a>

## ABBREVIATIONS

IDAAN	Instituto de Acueductos y Alcantarillados Nacionales [National Water and Sanitation Institute]
OCA	Oficina del Casco Antiguo [Casco Antiguo Office]
PARVIS	Programa de Apoyo Rápido a la Vivienda de Interés Social [Rapid Assistance Program for Low-cost Housing]
PROMEBA	Programa de Mejoramiento Integral de Barrios [Comprehensive Neighborhood Improvement Program]
SIAFPA	Sistema Integrado de Administración Financiera de Panamá [Integrated Financial Administration System of Panama]
UPVU	Unidad de Política de Vivienda y Urbanismo [Housing and Urban Development Policy Unit]
UNESCO	United Nations Educational, Scientific, and Cultural Organization

## PROJECT SUMMARY

### PANAMA PROGRAM TO IMPROVE HOUSING CONDITIONS (PN-L1002)

Financial Terms and Conditions*				
<b>Borrower: Republic of Panama</b>			<b>Amortization period:</b>	25 years
<b>Executing agency:</b> Ministry of Housing, through its Housing and Urban Development Policy Unit (UPVU)			<b>Grace period:</b>	4 years
			<b>Disbursement period:</b>	4 years
<b>Source</b>	<b>Amount</b>	<b>%</b>	<b>Interest rate:</b>	Variable
<b>IDB (OC):</b>	US\$30 million	95.2	<b>Inspection and supervision fee:</b>	*
<b>Local:</b>	US\$1.5 million	4.8	<b>Credit fee:</b>	*
<b>Other/Cofinancing:</b>			<b>Currency:</b>	U.S. dollars from the Single Currency Facility
<b>Total:</b>	US\$31.5 million	100		
Project at a glance				
<b>Project objective:</b> To improve housing conditions among low-income families, by expanding access to basic city services and affordable housing, and renovate properties to create low-income housing in Casco Antiguo, Panama City's historic district.				
<b>Special contractual clauses:</b> Conditions precedent to the first disbursement: (i) approval of the Operating Regulations; (ii) selection of an accountant for the UPVU (paragraph 3.2). Prior to initiating the first of the program works involving sanitation systems, the Housing Ministry and the National Water and Sanitation Institute (IDAAN) will sign an agreement establishing the terms and conditions (paragraph 3.5). Prior to tendering any program work that includes community facilities, the corresponding ministry will commit to operate and maintain the facilities identified in the designs (paragraph 3.3). Retroactive financing of up to US\$300,000 equivalent in eligible expenditures (paragraph 3.11).				
<b>Project is consistent with the country strategy:</b>		Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	
<b>Project qualifies as:</b>		SEQ <input checked="" type="checkbox"/>	PTI <input type="checkbox"/>	Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/>
<b>Procurement:</b> Program works and consulting services will be procured in accordance with applicable Bank policies and procedures.				
<b>Date of ESR verification:</b> 29 August 2008				

- \* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period

## I. FRAME OF REFERENCE

### A. Rationale and objectives

- 1.1 Panama has a population of approximately 3,172,360, and this figure is growing at an annual rate of 1.5%. Gross domestic product climbed 11.2% in 2007, with annual average growth of 8.6% between 2004 and 2007. The unemployment rate fell to 4.7% in 2007, far below the pre-2005 rates of over 11%. This performance helped the country maintain a relatively high human development index (0.812). However, Panama's income distribution is very unequal, its Gini coefficient was 54.8 in 2006, and although figures from the Economic Commission for Latin America and the Caribbean indicate poverty fell from 34% in 2002 to 30.8% in 2006, the country's poverty rate remains relatively high.
- 1.2 **The housing sector.** With high employment rates and an active home mortgage sector, the segment of the population served by the market is quite large. Panama's housing policy includes instruments that give people with relatively low income access to home mortgages. Primarily, these are automatic paycheck deductions and interest rate subsidies, under the Preferential Interest Rate Law. Despite its distorting effects on the market and the regressive nature of subsidies, by providing an interest rate discount on low-cost home mortgages, this law enables the financial sector to offer preferential home loans, putting home ownership within the reach of families with household incomes as low as US\$300 per month.
- 1.3 However, there are still significant problems related to the housing needs of low-income groups, which do not have access to the formal lending market. The system is not designed to meet the housing needs of families who have monthly household incomes below US\$300 or families who have unstable income because they work in the informal sector. Families falling into one of these two categories who also live in substandard conditions—whether in inadequate housing or informal settlements—represent cumulative demand of nearly 116,000 households, according to the Ministry of Housing.<sup>1</sup> Of these families, 79,000 live in dilapidated or makeshift structures located mainly in rural or periurban areas, and 37,000 live in informal settlements.
- 1.4 The Ministry of Housing estimates a total of 450 informal settlements in the country, with a resident population of roughly 185,000 people.<sup>2</sup> Of these settlements, 280 (62%) are located in Panama City, and the rest are located in medium-sized cities. Living conditions in these settlements are very poor, owing to access problems, lack of city services such as sewer and drainage systems and paved streets, and susceptibility to landslides and other environmental risks. Social conditions also tend to be poor as a result of unemployment, low household income, lack of social services, drug addiction problems, etc.

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<sup>1</sup> Ministry of Housing, 2007 Annual Statistical Report and 2008 Housing Deficit Estimates, Planning Department.

<sup>2</sup> Ministry of Housing, Informal Settlements Division, 2008.

- 1.5 To address these problems, the Housing Ministry's housing policy has been putting the needs of low-income families front and center since 2004, finding mechanisms to better target government subsidies and effectively meet their specific needs. Strategies have been developed with support from the Bank under the New Operational Instruments for Low-cost Housing Program (1629/OC-PN), with the following main lines of activity: (i) a barrio improvement program, to build infrastructure and regularize informal settlements; and (ii) a rapid assistance program for low-cost housing (PARVIS) to provide affordable housing for extremely poor families living in substandard conditions. Both initiatives will be continued under the proposed program.
- 1.6 **Historic district of Panama City.** The decline of city centers is another major problem affecting Panama's largest cities (Panama City and Colón). Panama City's historic district, known as Casco Antiguo, was declared a world heritage site by the United Nations Educational, Scientific, and Cultural Organization (UNESCO) in 1997. Occupying an area of 44 hectares, the district contains 865 residential, institutional, and commercial properties. The government owns 38 private lots with historic buildings. These lots were leased over 100 years ago to residential investors, who erected the buildings as rental housing. Over the years, many have fallen into disrepair for reasons ranging from the compounded failure of families to pay rent, lack of maintenance, and the development of the informal housing market (rooms for rent). Nevertheless, in recent years there has been a sustained urban renewal movement marked by an intense push to refurbish historic buildings and renovate homes, primarily for the high-income market. Inasmuch as these activities have tended to raise housing costs, they have had the indirect effect of pushing out the low-income families who have resided in Casco Antiguo for over 70 years. Consequently, the historic district is quickly losing its socioeconomic diversity, a trend that can only be reversed through a government initiative that both incentivizes urban renewal and retains a segment of the district's longtime residents.
- 1.7 Given the historic district's importance for the economic and cultural development of the city, the Panamanian government has supported an initiative by the Casco Antiguo Office (OCA) to restore the historic district. This office was established for the purpose of planning and implementing restoration and maintenance programs in the historic district. These activities are described in the 2001 strategic plan for Casco Antiguo, which identifies four lines of strategic action (infrastructure improvements, renovation of buildings for housing, promotion of tourism, and social development and integration). The proposed program will focus on the problem of the dilapidated buildings that house the district's poorest residents. These are typically wood-framed historic buildings that do not meet safety standards and have been poorly maintained. The support provided under this program is justified by the historic district's importance for Panama and the demonstration effect the program is expected to produce for other cities in the country.

**B. Program strategy**

- 1.8 The general strategy is to support Housing Ministry programs that target income groups lacking access to the formal home mortgage market, in order to fulfill the objectives of public social investments. This operation will support neighborhood improvement and low-cost housing mechanisms with proven effectiveness in terms of social impact and poverty targeting. The investments are designed to improve the housing conditions of low-income groups, giving them access to basic city services and affordable housing. The program will boost the Housing Ministry's capacity to implement its innovative housing policy instruments efficiently and transparently and strengthen its role among key entities in the government's social policy.
- 1.9 The program will also support a component to revitalize the historic district, in which the focus will be on restoring housing and creating an institutional structure for urban renewal activities. These efforts will significantly improve the urban environment and promote the socioeconomic revitalization of the district, complementing the renewal process now under way.

**C. The Bank's sector strategy and lessons learned**

- 1.10 The program will build on the Bank's experience with comprehensive neighborhood improvement and urban renewal programs, drawing on good practices arising from operations such as the Favela-Bairro Program (1241/OC-BR) and the Program to Rehabilitate the Historic Center of Quito (822/OC-EC). In general, these lessons point up the advantages to be had by taking a comprehensive multisector approach to problems associated with informal urban development and institutional aspects of urban renewal programs. Some of the specific lessons that have been incorporated into this operation are as follows: (i) community participation should be built into all stages of an operation to ensure sustainability, and this is an integral part of the neighborhood improvement mechanism adopted for this operation; (ii) the issue of land tenure should be addressed early on because formal ownership gives the beneficiaries the certainty they need to invest in and maintain their property; (iii) a transparent neighborhood and beneficiary selection system based on technical feasibility and access-to-services criteria should be established, as it has in this program; and (iv) established entities, such as the OCA in this operation, are needed in each area to implement urban renewal activities in city centers.
- 1.11 This operation is consistent with the Bank's country strategy with Panama (document GN-2385), as updated in February 2008, which places priority on supporting sustainable economic growth and reducing poverty. This program will help reduce extreme poverty in Panama by improving housing conditions and giving low-income groups greater access to assets, basic services, and social services.



## II. THE PROGRAM

### A. Objective

- 2.1 This operation will support housing policy initiatives by the Panamanian government to improve housing conditions among low-income families, by expanding access to basic city services and affordable housing, and renovate properties to create low-income housing in Casco Antiguo, Panama City's historic district.

### B. Description

- 2.2 The program will have four components: (i) neighborhood improvement – PROMEBA; (ii) low-income housing – PARVIS; (iii) revitalization of Casco Antiguo; and (iv) support for institutional management and strengthening.
- 2.3 **Component I. Neighborhood improvement – PROMEBA (US\$12 million).** This component will finance comprehensive urban development projects to meet the needs of urban settlements. The strategy is to provide financing for two simultaneous, complementary initiatives: (i) comprehensive urban development and (ii) social development. Works under the first initiative include physical infrastructure (water and sanitation systems, drainage systems, primary roads, public lighting, works to contain and mitigate environmental risks, garbage collection facilities), urban and social facilities (parks and green areas, sports fields, community centers), and support to regularize land tenure in each settlement. The social development initiative calls for the construction of childcare centers and schools, which will be operated and maintained by public and private entities through the Ministry of Social Development. Training will also be provided for established community organizations in the settlements, and residents will receive health and environmental education.
- 2.4 This component will provide financing for the improvement of four settlements located in Panama City with a combined population of 1,600 families. These settlements have been selected based on criteria of population density, poverty (monthly household income of less than US\$300), lack of infrastructure, and technical criteria related to the feasibility of connecting to service networks, the feasibility of regularizing land tenure, and the existence of some type of community organization. The maximum investment per household has been set at US\$7,500 in areas where up to 15% of households will be resettled, and US\$6,200 in areas with no resettlement needs (see Operating Regulations).
- 2.5 **Component II. Low-income housing – PARVIS (US\$14.16 million).** This component will provide financing for PARVIS, which improves the housing conditions of poor families by providing basic low-income housing. The program will hire private construction firms under turnkey contracts to build affordable homes for families with very low incomes. The homes will measure 36 square meters and will be built on lots owned by the families. The component will target

families living in extreme poverty in periurban areas of the country's largest cities, with priority given to eligible families in the National Social Safety Net.

- 2.6 The program will benefit approximately 1,900 families in periurban and rural areas. Priority in the selection of beneficiaries will be given to families who have registered with the regional offices of the Ministry of Housing but have not yet received assistance under PARVIS. To be selected, applicants must meet the eligibility and selection criteria set forth in the program Operating Regulations.
- 2.7 **Component III. Revitalization of Casco Antiguo (US\$2.5 million).** This component will focus on the renovation of buildings for low-income housing in Casco Antiguo, Panama City's historic district. Its objective is to create a mixed residential area in which low-income residents are not obligated to leave as a result of a natural appreciation in real estate values. Within the parameters of good practices established by UNESCO, which are being implemented by the OCA in agreement with the Housing Ministry, this component will finance the conversion of at least eight government-owned historic buildings for low-income rental housing. The renovated units will be preferentially assigned to the previous tenants provided they qualify and meet the eligibility criteria established in the program Operating Regulations. Once the buildings have been remodeled by the Housing Ministry, the OCA will organize the beneficiaries, provide them with support during and after the conversions, and work to ensure that building residents are able to stay on in the renovated units. The leases will specify the tenants' payment obligations in terms of rent, which will be used to maintain the property.
- 2.8 **Component IV. Program management and institutional strengthening support (US\$1.5 million).** This component will provide financing for technical assistance activities to strengthen the institutional capacity of the Housing Ministry's Housing and Urban Development Policy Unit (UPVU) to execute the program. This component includes: (i) program administration costs, to be financed with contributions from the Housing Ministry; (ii) an external audit; (iii) a monitoring system, including surveys and the preparation of impact evaluation reports for the program; (iv) a number of consulting assignments to support program execution (on issues related to neighborhood improvement, community development, sanitation systems, urban roads, management information systems, etc.); (v) equipment for the UPVU; and (vi) training for UPVU personnel and program dissemination. The Operating Regulations contain the amounts and specific items of expenditure for this component.

### **C. Cost and financing**

- 2.9 The total cost of the proposed program will be US\$31.5 million. The Bank will contribute US\$30 million in financing. The total amount is broken down by source of financing and cost category in the table below:

**Table 2.1: Cost and financing (US\$ 000)**

Components	IDB	Local	Total	%
<b>1. Investment components</b>				
1.1 Neighborhood improvement	12,000		12,000	38.1
1.2 Low-income housing (PARVIS)	14,160		14,160	45.0
1.3 Revitalization of Casco Antiguo	2,500		2,500	7.6
<b>2. Program administration</b>				
2.1 Management and strengthening support	1,340	1,160	2,500	7.9
<b>3. Financial costs</b>				
3.1 Credit fee		340	340	1.0
<b>TOTAL</b>	<b>30,000</b>	<b>1,500</b>	<b>31,500</b>	<b>100</b>

#### **D. Results framework and key indicators**

- 2.10 The program will produce major social, urban development, and environmental benefits for the country. The direct beneficiaries will be the residents of informal settlements, families living in extreme poverty, and residents of buildings in Casco Antiguo. Specifically, the program is expected to produce the following results: (i) improved environmental and housing conditions for approximately 3,600 families, 1,600 of whom live in informal settlements and 2,000 of whom live in substandard structures; (ii) renovation of eight historic buildings in Casco Antiguo, with resident low-income families staying on in these buildings; and (iii) strengthening and training for the UPVU so it can continue to implement housing policies and programs similar to this one. Annex I contains the results matrix for the program, with the corresponding annual targets.

### **III. EXECUTION MECHANISM**

#### **A. Borrower and executing agency**

- 3.1 The borrower will be the Republic of Panama. The executing agency will be the Ministry of Housing, acting through its Housing and Urban Development Policy Unit (UPVU). The UPVU will be responsible for all aspects of program execution, including liaising with the Bank.

#### **B. Program implementation and administration**

- 3.2 The UPVU, as the entity directly involved in executing the program, will perform general financial and administrative control activities, coordinate technical and operational aspects of the program, and orchestrate relations within and between participating institutions, including liaising with the Bank. The UPVU has two technical units in charge of the operational, technical, and monitoring aspects involved in implementing the respective components: neighborhood improvement (PROMEBA) and low-income housing (PARVIS). It will also have the support of the Housing Ministry divisions responsible for managing the administrative and financial aspects of the program. These functions will be strengthened by a procurement specialist, an evaluation and monitoring specialist, and an accountant

certified in the use of Panama's Integrated Financial Administration System (SIAFPA). **As a condition precedent to the first disbursement of the Bank's loan, an accountant for the UPVU will be hired.**

- 3.3 The PROMEBA technical unit will coordinate the neighborhood improvement component, managing and providing comprehensive assistance for projects in each settlement, including: (i) commissioning project designs; (ii) tendering infrastructure works and their supervision; (iii) tendering community development works and their supervision; (iv) coordinating with the public and private entities in charge of operating program-financed community services and facilities and transferring these services to the entities; and (v) reporting annually to the Bank on the status of operation and maintenance. **Prior to the startup of each neighborhood improvement project that includes community facilities, the corresponding ministry or government agency will place in writing its commitment to operate and maintain the community facility/work identified in the designs.** At present, the Housing Ministry and the Social Development Ministry have an agreement to operate and maintain community facilities/works built by the Housing Ministry under PROMEBA.
- 3.4 The technical unit for the PARVIS component will have the following responsibilities: (i) select the proposals received from the Housing Ministry's regional offices for verification of compliance with eligibility criteria and ranking (see Operating Regulations); (ii) tender groups of housing units by regional blocs; and (iii) supervise works (with support from the Housing Ministry's regional offices and Engineering and Architecture Division). Selected contractors will build houses on lots owned by beneficiary families, meeting the technical specifications provided in the bidding documents. At the end of the process, the completed houses will be delivered to the families, whose names will be added to the Housing Ministry's beneficiary rolls.
- 3.5 PROMEBA and PARVIS works will require engineering design permits issued by municipios or other appropriate agencies and the corresponding construction permits. **As a condition precedent to the order to proceed with the first work under the program that includes water and sanitation systems, the Housing Ministry and the National Water and Sanitation Institute (IDAAN) will sign an interagency agreement establishing the terms and conditions under which: (i) the Housing Ministry will arrange for the construction of the systems; (ii) the systems will be transferred to the IDAAN; and (iii) the systems will be operated and maintained.** The agreement will make reference to the transfer of the Villa María treatment facility, which has been financed under project 1629/OC-PN and is being operated by the Housing Ministry.
- 3.6 The UPVU, as the entity responsible for the renovation of buildings for low-income housing, will execute the component to revitalize Casco Antiguo. The OCA will prepare the technical designs for these conversions and will subsequently handle administration of the renovated buildings and provide assistance to the residents

throughout the construction process and after they take residence in the renovated buildings.

- 3.7 The UPVU will be directly responsible for implementing the program management and institutional strengthening component. It will select and contract the consultants needed to perform the various component activities in accordance with Bank procedures.

### C. Procurement

- 3.8 Program works and consulting services will be procured in accordance with applicable Bank policies (documents GN-2349-7 and GN-2350-7). The following table summarizes the procurement methods to be used.

**Table 3.1: Procurement methods for works and consulting services**

Procurement category	Procurement method	Amount of the contract	Review
Works	ICB	> US\$3 million	Ex ante for all contracts
	NCB	< US\$3 million BUT > US\$250,000	Ex ante for all contracts
	Shopping	< US\$250,000	Ex ante for all contracts
Consulting firms	International competition	> US\$200,000	Ex ante for all contracts (notices must be posted to the UNDB and IDB websites)
	National competition	≥ US\$200,000	Ex ante for all contracts (for contracts for less than US\$200,000, the shortlist may comprise entirely national consultants)
Individual consultants	Comparison of qualifications	Any amount	Ex ante for all contracts (public notice is required for contracts for more than US\$60,000)

- 3.9 The bidding documents agreed on with the Bank will be used in the case of contracts for works and consulting services under the established thresholds.

### D. Execution period and disbursement schedule

- 3.10 The following table presents the disbursement schedule for the program for the four years of execution.

**Table 3.2: Disbursement schedule (US\$ 000)**

Source of financing	Year 1	Year 2	Year 3	Year 4	TOTAL
<b>IDB</b>	8,500	8,950	7,450	5,100	<b>30,000</b>
<b>LOCAL</b>	400	400	400	300	<b>1,500</b>
<b>TOTAL</b>	9,350	9,850	8,010	5,790	<b>31,500</b>
<b>%</b>	<b>28.3</b>	<b>29.7</b>	<b>24.9</b>	<b>17.1</b>	<b>100</b>

- 3.11 **Retroactive financing.** The Bank is asked to retroactively finance up to US\$300,000 equivalent in eligible expenditures incurred on or after 1 June 2008, in accordance with the requirements of its retroactive financing policy.

**E. Revolving fund and external audit**

- 3.12 The program will have a revolving fund of up to 5% of the Bank's loan. The executing agency will deliver a semiannual report to the Bank on the status of the revolving fund within 60 calendar days after the end of each six-month period or on the date set with the Bank. In addition, the Housing Ministry will deliver annual audited financial statements throughout the execution period. An external audit will be conducted by independent auditors acceptable to the Bank pursuant to terms of reference previously approved by the Bank, in accordance with requirements set forth in documents AF-100 and AF-300. The annual audited financial statements will be delivered within 120 days after the end of each fiscal year. The final audit report will be presented within 120 days after the last disbursement.

**F. Results monitoring arrangements**

- 3.13 To ensure effective monitoring of program activities throughout the execution period, the UPVU will implement a program monitoring and evaluation system consisting of: (i) a management system for monitoring the physical and financial progress of all projects and activities implemented (based on the SIAPFA); (ii) semiannual progress reports on the status of the program and all relevant information, delivered within 60 calendar days after the end of each six-month period or by the date set with the Bank; and (iii) two evaluations to measure program effectiveness based on the indicators in the results matrix (Annex I).
- 3.14 The midterm evaluation will be delivered to the Bank within 90 days after the date on which 50% of the loan proceeds have been disbursed or 30 months of the execution period have elapsed, whichever occurs first. The final evaluation report, which will serve as an input for the project completion report, will be delivered within 90 days after the date on which 90% of the loan proceeds have been disbursed. These reports will cover: (i) the financial execution of the program by component; (ii) the fulfillment of component and program targets and the impact generated, based on the indicators established in the results matrix; (iii) lessons learned from program execution and the implications for the design of future operations; (iv) the operation and maintenance status of completed works and

services; (v) a summary of socioenvironmental impacts, the application of environmental mitigation measures, the execution process, the status of families who received homes under the program, etc.; and (vi) a summary of the findings of all the audits performed during program execution. These evaluations will be conducted by consulting firms engaged by the UPVU with proceeds from the Bank's loan.

## **IV. VIABILITY**

### **A. Technical viability**

- 4.1 Although the works to be financed under the program will be executed in an integrated manner, they are considered to have a low level of complexity from an engineering viewpoint and do not present any special technical challenges in terms of construction or operation. Conventional technology will be used for the urban development works, stormwater drainage systems, and water and sanitation systems. The housing conversion works in Casco Antiguo will be executed according to methods developed and tested by the Housing Ministry itself.
- 4.2 The projects developed under the Low-cost Housing Program (1629/OC-PN) were used as a model for this operation. That program enabled the Housing Ministry to develop technical expertise in the execution of neighborhood improvement programs and fine-tune its contracting systems for houses built under PARVIS.
- 4.3 It has been confirmed that the designs for specific works were prepared in accordance with generally accepted engineering standards and principals and represent the least-cost technically viable options. These designs were submitted for technical review and found to be acceptable. The planned sanitation works will be connected to the city's existing systems and operated by the IDAAN.

### **B. Socioeconomic viability**

- 4.4 The program was evaluated at the component level by determining cost efficiency. For each discrete program activity, an in-depth analysis of costs and least-cost solutions was conducted. Based on this analysis, cost efficiencies per unit (families and affordable houses) were calculated for both the neighborhood improvement projects and the PARVIS component.
- 4.5 **Cost per family for neighborhood improvement.** The per-family cost was calculated based on the comprehensive urban development project executed in the community of Villa María under the Low-cost Housing Program (1629/OC-PN). Given the similarities in terrain and the use of a methodology similar to the one that will be used in neighborhoods under the proposed program, the Villa María project provides a model for setting cost parameters. Table 4.1 presents a summary of the costs of design, physical infrastructure, community development, and other comprehensive activities in the neighborhood.
- 4.6 The Villa María project cost US\$6.1 million and benefitted 760 families. Basic infrastructure works (such as water, sanitation, paved roads, electricity, etc.)

accounted for 75.5% of the total investment, followed by resettlement costs (12.3%) and social services (4.1%). Accordingly, the maximum per family investment for neighborhood improvement activities under the proposed program will be US\$8,000, which may be adjusted by up to 10% as justified by special conditions in the beneficiary communities. The maximum per family investment for initiatives that do not involve resettling families will be US\$6,700.

**Table 4.1: Costs of the Villa María project**

Cost category	Investment US\$	Investment/family (760 families)	%
<b>Design/supervision of works</b>	<b>361,427</b>	<b>476</b>	<b>5.9</b>
<b>Infrastructure</b>	<b>4,612,619</b>	<b>6,069</b>	<b>75.5</b>
Water system	1,438,456	1,893	
Sanitation system	1,483,412	1,952	
Health units	543,576	715	
Road system	1,098,300	1,445	
Electricity system	48,875	64	
<b>Community facilities</b>	<b>250,999</b>	<b>330</b>	<b>4.1</b>
Childcare center	115,644	152	
Multiuse center	49,318	65	
Sports field	86,037	113	
<b>Resettlement</b>	<b>753,202</b>	<b>991</b>	<b>12.3</b>
84 new houses	685,165	902	
Repair of damaged houses	8,972	12	
Site preparation and earthwork	10,500	14	
Perimeter wall	48,565	64	
<b>Community development</b>	<b>130,000</b>	<b>171</b>	<b>2.1</b>
<b>TOTAL</b>	<b>6,108,247</b>	<b>8,037</b>	<b>100</b>

- 4.7 **Cost of houses under PARVIS.** The low-income housing component will finance the construction of basic housing units measuring 36 square meters that are equipped with indoor plumbing and built on sites with access to water connections. The houses are located throughout the country, but priority will be given to construction of groups of houses (10 to 50) to take advantage of economies of scale. The benchmark unit cost of these houses, which are built under contracts with local construction firms, has been calculated based on the Housing Ministry's experience of several years with this type of solution. Designs and construction and management methods have been developed and materials have been adopted that represent the least-cost solutions. This cost is US\$7,500 and may be adjusted by up to 10% to reflect regional variations in construction costs.



**C. Analysis of beneficiaries**

- 4.8 This operation qualifies as a poverty-targeted investment inasmuch as more than 50% of program beneficiaries are from low-income groups, as determined by the sector (neighborhood improvement and low-income housing). It also qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

**V. PRINCIPAL RISKS**

**A. Fiduciary and institutional capacity risks**

- 5.1 The Housing Ministry has extensive experience executing Bank-financed programs, including 782/SF-PN, 220/IC-PN, 949/OC-PN, and 1629/OC-PN, all of which were satisfactorily implemented. This operation is a continuation of the New Operational Instruments for Low-cost Housing Program (1629/OC-PN), which supported the creation of the UPVU, the entity responsible for implementing the new operation, and also included the PARVIS and PROMEBBA components that will continue to be implemented under this operation. The operating rules, procurement procedures, and execution mechanisms for the two main components, PARVIS and PROMEBBA, will be adapted from the previous program. Accordingly, the proposed operation is not expected to present new challenges to the execution unit or the Housing Ministry. The analysis conducted by the Bank using the Institutional Capacity Assessment System (which indicated a medium level of development), coupled with interviews, visits to the executing agency, and recent performance, has confirmed the executing agency's capacity to implement the program. The main considerations related to the Housing Ministry's institutional, technical, administrative, and financial capacity, including operational considerations and capacity to generate financial and accounting information, were assessed, and it was confirmed that the Housing Ministry's overall capacity is acceptable, as demonstrated during the execution of previous Bank programs.
- 5.2 However, areas for improvement were identified and will be addressed under the component to support program management. These include: (i) implementation of the program monitoring and evaluation system; (ii) use of the computerized financial-accounting system for central and decentralized government entities (SIAFPA) in line with guidance by the Bank and the government to adopt national systems wherever possible throughout the government to facilitate the control of public expenditure; (iii) the incorporation into the UPVU of a procurement specialist, an evaluation and monitoring specialist, and an accountant from the Housing Ministry's accounting division who is certified in the use of the SIAFPA; and (iv) the creation of a register of providers for PARVIS.

**B. Social and environmental risks**

- 5.3 At its 14 April 2008 meeting, the Environmental and Social Review Committee (ESR) recommended an [Environmental and Social Management Report \(ESMR\)](#).

According to the report, program works are aimed at improving social, economic, and environmental conditions in the beneficiary neighborhoods and for families receiving low-income housing, which generates markedly positive impacts, including the following: (i) improved sanitation conditions, public health, and access to services, particularly for residents of beneficiary neighborhoods; and (ii) significantly improved housing conditions for families participating in PARVIS, etc.

- 5.4 The program Operating Regulations contain the environmental procedures required for each component. In the case of neighborhood improvement, the designs for every work must include a specific environmental assessment, which will be presented to Panama's environmental authority. If there is a need to relocate families, in order to mitigate risks or for project-specific needs, houses will be built in the same neighborhoods, in accordance with the principles set forth in policy OP-710. In the case of houses built under PARVIS, the Operating Regulations provide that houses must have access to water sources and sanitary sewage systems, as basic conditions. The Housing Ministry is considered to have sufficient technical capacity to perform environmental monitoring for the program, through its seven-member environmental unit, which will monitor compliance with the environmental regulations contained in the Operating Regulations.

**C. Political risk**

- 5.5 The mid-2009 change in administration poses a political and sector risk. Steps have already been taken to mitigate this risk, including scheduling program startup for the first half of 2009 so all technical conditions will have been agreed on and stipulated in the loan contract. Moreover, the preparatory task of organizing and disseminating information to beneficiary communities and potential beneficiaries to ensure they identify with program objectives and lock in support for the program began during preparation of projects under the precedent program.

**PANAMA**  
**PROGRAM TO IMPROVE HOUSING CONDITIONS**  
**(PN-L1002)**

**RESULTS MATRIX**

General objective of the program:			To improve housing conditions among low-income families, by expanding access to basic city services and affordable housing				
Outcome indicators: By program completion			Base	Target	Comments		
The resident population of informal settlements decreases by 5% with respect to the base level (families in settlements).			37,000	35,400	The reduction corresponds to the number of families residing in settlements served by the program.		
Unmet demand for low-income housing for families living in extreme poverty falls by 3% (families in substandard housing).			79,000	77,000	The reduction corresponds to the number of households served under the PARVIS initiative.		
Objective of component 1		To improve the quality of life of families in informal settlements					
Component 1	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments
Outputs Comprehensive neighborhood improvements	0	1	1	1	1	4 neighborhoods	Indicates number of improved neighborhoods
Objective of component 2		To improve housing conditions for families with very low incomes					
Component 2	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments
Outputs Construction and delivery of affordable houses under PARVIS	0	400	500	500	500	1,900	Indicates number of houses delivered
Objective of component 3		To support the revitalization of Casco Antiguo, Panama City’s historic district					
Component 3	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments
Outputs Conversion of historic buildings for residential housing	0	1	4	3	0	8	Indicates number of buildings converted in Casco Antiguo
Support for installation of the Casco Antiguo management entity	0	0	1	0	0	Support	Entity established and in operation, support provided

Objective of component 4	To support program execution and strengthen and provide training to the UPVU						
Component 4	Base	Year 1	Year 2	Year 3	Year 4	Target	Comments
<b>Outputs</b>							
Monitoring and evaluation system and evaluations	0	1	1	0	1	2	The system is implemented in year 1 and evaluations are conducted in years 2 and 4.
Training workshops	0	1	1	1	1	4	
Program dissemination	0	1		1		2	Campaigns held

\* The base and target levels are being reviewed; the final figures will be incorporated during program negotiations.

**PANAMA**  
**PROGRAM TO IMPROVE HOUSING CONDITIONS**  
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**PROCUREMENT PLAN**

Ref No.	Description of the contract and estimated cost of procurement	Total value US\$	Procurement method	Review	Source of financing and percentage		Prequali fication	Estimated dates	
					IDB	Local		Publication	Completion of contract
I. WORKS									
1	Improvement of Tierra Prometida								
	Estimated cost	7,300,000	ICB	ex ante	100%		No	Aug-09	Aug-11
	Estimated quantity	1							
	Total	7,300,000							
2	Improvement of Edgardo Vernaza								
	Estimated cost	1,917,000	NCB	ex ante	100%		No	Feb-10	Feb-11
	Estimated quantity	1							
	Total	1,917,000							
3	Improvement of Naos Gonzalillo								
	Estimated cost	745,000	NCB	ex ante	100%		No	Sep-10	Sep-11
	Estimated quantity	1							
	Total	745,000							
4	Improvement of Nueva Libia 1 and 2								
	Estimated cost	894,000	NCB	ex ante			No	Jan-11	Jan-12
	Estimated quantity	1							
	Total	894,000							
5	PARVIS								
	Estimated cost	7,500	NCB	ex post	100%		No	Jan-09	Jan-12
	Estimated quantity (multiple packets)	1,900							
	Total	14,250,000							
	TOTAL – WORKS	25,106,000							

Ref No.	Description of the contract and estimated cost of procurement	Total value US\$	Procurement method	Review	Source of financing and percentage		Prequali fication	Estimated dates	
					IDB	Local		Publication	Completion of contract
II. CONSULTING SERVICES									
CONSULTING FIRMS									
1	IMPROVEMENT OF TIERRA PROMETIDA								
1.1	Comprehensive urban planning (Tierra Prometida)								
	Estimated cost	198,000	QCBS	ex ante			No	Jan-09	Jun-09
	Estimated quantity	1							
	Total	198,000							
1.2	Community organization and mobilization (Tierra Prometida)								
	Estimated cost	55,000	QCBS	ex ante	100%		No	Jan-09	Jun-09
	Estimated quantity	1							
	Total	55,000							
1.3	Supervision of works (Tierra Prometida)								
	Estimated cost	240,000	QCBS	ex ante	100%		No	Jul-09	Sep-11
	Estimated quantity	1							
	Total	240,000							
1.4	Community development and support for works (Tierra Prometida)								
	Estimated cost	200,000	QCBS	ex ante	100%		No	Jul-09	Sep-11
	Estimated quantity	1							
	Total	200,000							
2	IMPROVEMENT OF EDGARDO VERNAZA								
2.1	Comprehensive urban planning (Edgardo Vernaza)								
	Estimated cost	60,000	QCBS	ex ante	100%		No	Jun-09	Dec-09
	Estimated quantity	1							
	Total	60,000							

Ref No.	Description of the contract and estimated cost of procurement	Total value US\$	Procurement method	Review	Source of financing and percentage		Prequalification	Estimated dates	
					IDB	Local		Publication	Completion of contract
2.2	<b>Community organization and mobilization (Edgardo Vernaza)</b>								
	Estimated cost	20,000	QCBS	ex ante	100%		No	Jun-09	Dec-09
	Estimated quantity	1							
	Total	20,000							
2.3	<b>Supervision of works (Edgardo Vernaza)</b>								
	Estimated cost	77,000	QCBS	ex ante	100%		No	Jan-10	Mar-11
	Estimated quantity	1							
	Total	77,000							
2.4	<b>Community development and support for works (Edgardo Vernaza)</b>								
	Estimated cost	67,000	QCBS	ex ante	100%		No	Jan-10	Mar-11
	Estimated quantity	1							
	Total	67,000							
3	<b>IMPROVEMENT OF NAOS GONZALILLO</b>								
3.1	<b>Comprehensive urban planning (Naos Gonzalillo)</b>								
	Estimated cost	30,000	QCBS	ex ante	100%		No	Jan-10	Jul-10
	Estimated quantity	1							
	Total	30,000							
3.2	<b>Community organization and mobilization (Naos Gonzalillo)</b>								
	Estimated cost	12,000	QCBS	ex ante	100%		No	Jan-10	Jul-10
	Estimated quantity	1							
	Total	12,000							
3.3	<b>Supervision of works (Naos Gonzalillo)</b>								
	Estimated cost	31,000	QCBS	ex ante	100%		No	Aug-10	Oct-11
	Estimated quantity	1							
	Total	31,000							

Ref No.	Description of the contract and estimated cost of procurement	Total value US\$	Procurement method	Review	Source of financing and percentage		Prequalification	Estimated dates	
					IDB	Local		Publication	Completion of contract
3.4	<b>Community development and support for works</b>								
	Estimated cost	30,000	QCBS	ex ante	100%		No	Aug-10	Oct-11
	Estimated quantity	1							
	Total	30,000							
4	<b>IMPROVEMENT OF NUEVA LIBIA 1 AND 2</b>								
4.1	<b>Comprehensive urban planning (Nueva Libia 1 and 2)</b>								
	Estimated cost	37,000	QCBS	ex ante	100%		No	May-10	Nov-10
	Estimated quantity	1							
	Total	37,000							
4.2	<b>Community organization and mobilization (Nueva Libia 1 and 2)</b>								
	Estimated cost	15,000	QCBS	ex ante	100%		No	May-10	Nov-10
	Estimated quantity	1							
	Total	15,000							
4.3	<b>Supervision of works (Nueva Libia 1 and 2)</b>								
	Estimated cost	36,000	QCBS	ex ante	100%		No	Dec-10	Feb-12
	Estimated quantity	1							
	Total	36,000							
4.4	<b>Community development and support for works</b>								
	Estimated cost	36,000	QCBS	ex ante	100%		No	Dec-10	Feb-12
	Estimated quantity	1							
	Total	36,000							
5	<b>SUPPORT FOR MANAGEMENT/ INSTITUTIONAL STRENGTHENING</b>								
5.1	<b>Concurrent audit</b>								
	Estimated cost	120,000	QCBS	ex ante		100%	No	Jan-09	Feb-12



Ref No.	Description of the contract and estimated cost of procurement	Total value US\$	Procurement method	Review	Source of financing and percentage		Prequalification	Estimated dates	
					IDB	Local		Publication	Completion of contract
	Estimated quantity	1							
	Total	120,000							
6	<b>SUPPORT FOR MANAGEMENT/ INSTITUTIONAL STRENGTHENING</b>								
<b>INDIVIDUAL CONSULTANTS</b>									
6.1	<b>Evaluation surveys (Monitoring system)</b>								
	Estimated cost	70,000	NICQ	ex ante		100%	No	Jan-09	Feb-12
	Total	140,000							
6.2	<b>Program execution support</b>								
	6.2.1 Neighborhood improvement (6 months)	99,000	NICQ	ex ante		100%	No	Jan-09	Feb-12
	6.2.2 Community development (4 months)	66,000	NICQ	ex ante		100%	No	Mar-09	
	6.2.3 Sanitation (5 months)	50,000	IICQ	ex ante		100%	No	Mar-09	
	6.2.4 Urban roads (3 months)	30,000	IICQ	ex ante		100%	No	Jun-09	
	6.2.5 Information systems (48 months)	96,000	IICQ	ex ante		100%	No	Jan-09	Feb-12
	Total	341,000							
6.3	<b>Program dissemination</b>								
	Estimated cost	20,000	NICQ	ex ante		100%	No	Jan-10	Feb-11
	Estimated quantity (annual campaigns)	2							
	Total	40,000							
6.4	<b>Training</b>								
	Estimated cost	20,000	NICQ	ex ante		100%	No	Jun-09	Jun-10
	Estimated quantity (training days)	4							
	Total	80,000							
	<b>TOTAL – Consulting Services</b>	<b>1,373,000</b>							

ICB: International competitive bidding

NCB: National competitive bidding

QCBS: Quality- and cost-based selection

IICQ: International individual consultant selection based on qualifications

NICQ: National individual consultant selection based on qualifications

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/\_\_\_

Panama. Loan \_\_\_\_/OC-PN to the Republic of Panama  
Program to Improve Housing Conditions

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to improve housing conditions. Such financing will be for the amount of up to US\$30,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_)

LEG/SGO/CID/IDBDOCS#1725215  
PN-L1002