



## Simplified Procedure

On or after: 2 February 2005

PR-2916

11 January 2005

Original: Spanish

**To:** The Board of Executive Directors  
**From:** The Secretary  
**Subject:** Panama. Proposal for a loan for priority activities in the Panama Canal Watershed

**Basic Information:** Borrower ..... Republic of Panama  
Amount ..... up to US\$19,860,000  
Source ..... Single Currency Facility of the Ordinary Capital

**Inquiries to:** Mr. Heli Nessim (extension 3654)

**Remarks:** This operation was included in the country strategy update approved by the Board of Executive Directors on 2 May 2001 (see document GN-2136-1), and its amount does not exceed the ceiling established for Group C countries.

**References:** GN-1838-1(7/94), DR-398-5(5/03), GN-2136-1(4/01)

**Other distribution:** Representative in Panama

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**PANAMA**

**PRIORITY ACTIVITIES IN THE PANAMA CANAL WATERSHED**

**(PN-0139)**

**LOAN PROPOSAL**

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|--|---|
| Basic socioeconomic data                         | <a href="http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata">http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata</a>               |
| Status of loans in execution and loans approved  | <a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462962">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462962</a>   |
| Tentative lending program                        | <a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462939">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462939</a>   |
| Information available in the RE2 technical files | <a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462960">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462960</a> □ |
| Logical framework                                | <a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462952">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462952</a>   |
| Procurement plan                                 | <a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462957">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=462957</a>   |

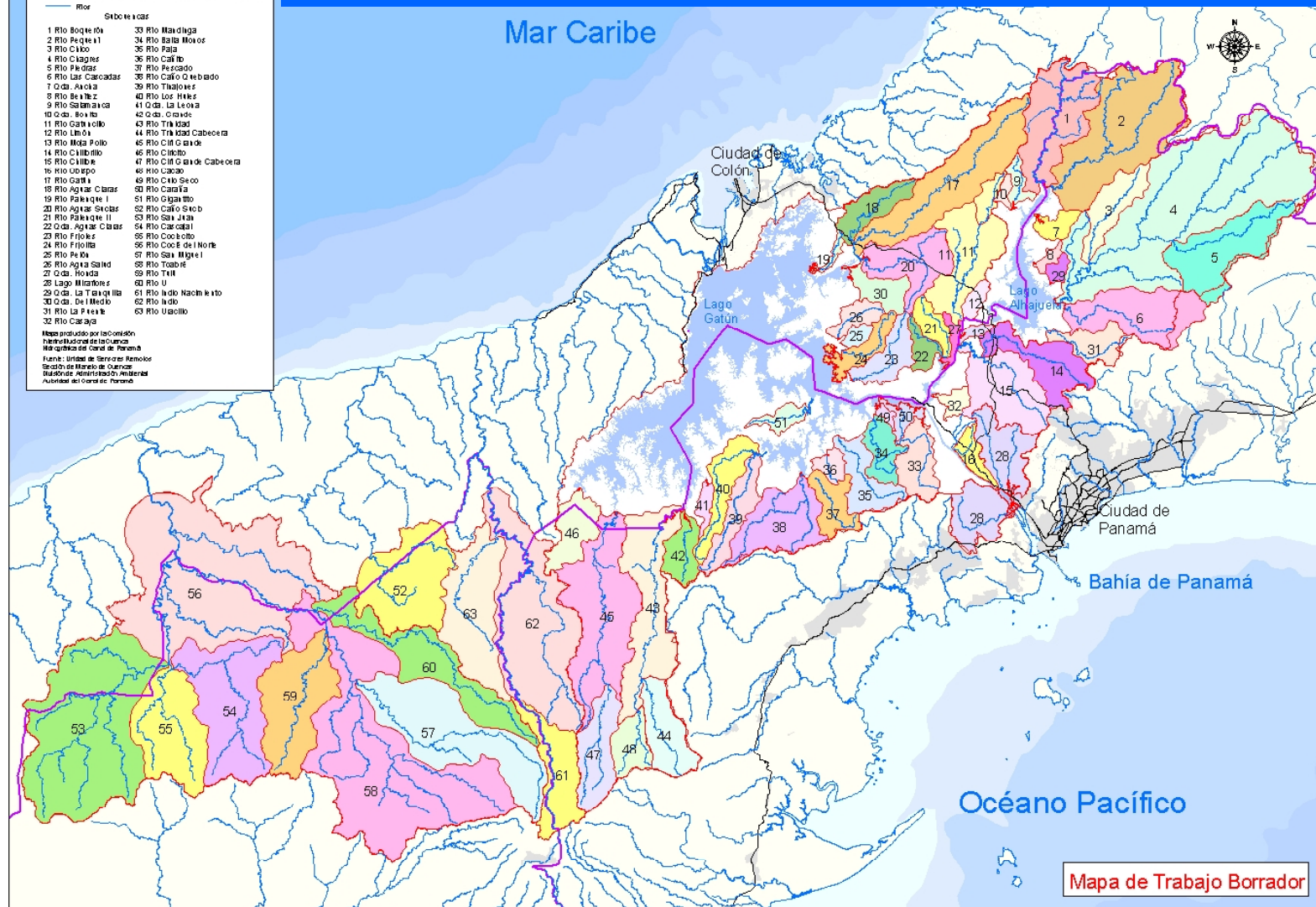
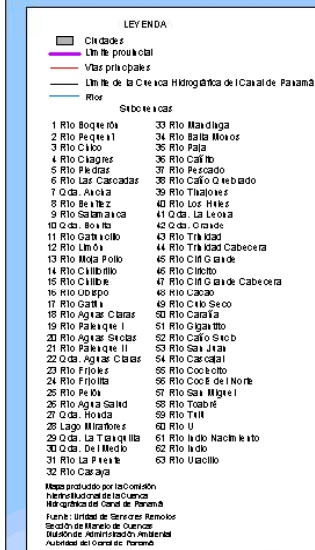
## APPENDIX

Proposed resolution

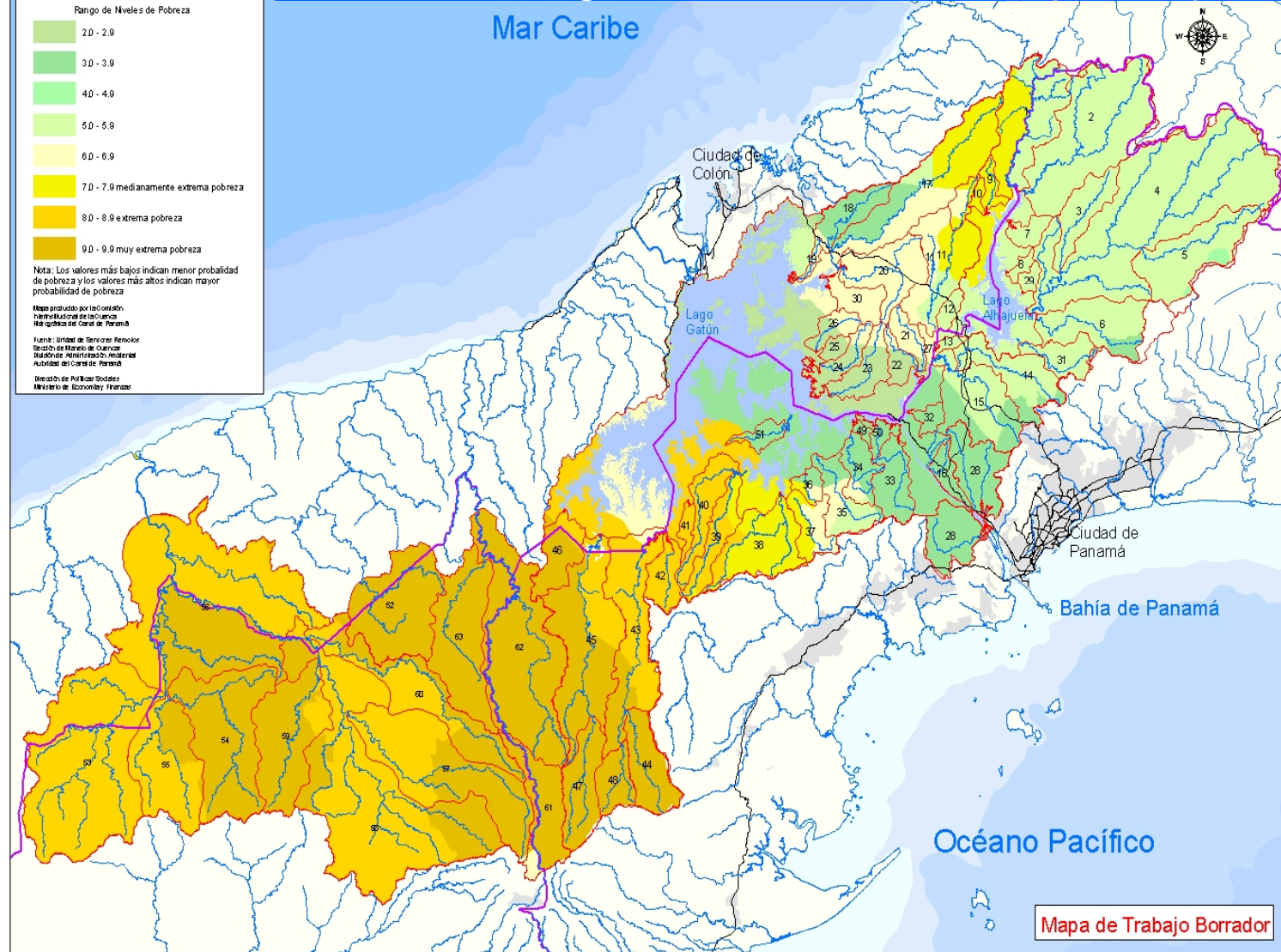
## ABBREVIATIONS

|         |   |
|---------|---|
| ACP     | Panama Canal Authority  |
| ANAM    | Autoridad Nacional del Ambiente [National Environment Authority]  |
| ARI     | Autoridad de la Región Interoceánica [Interoceanic Regional Authority]  |
| CCC     | Comisión Comunitaria de la Cuenca [Watershed Community Commission]  |
| CDP     | Comité Directivo del Proyecto [Project Steering Committee]  |
| CICH    | Comisión Interinstitucional de la Cuenca Hidrográfica del Canal de Panamá [Interagency Commission for the Panama Canal Watershed]   |
| CONADES | Consejo Nacional para el Desarrollo Sostenible [National Council for Sustainable Development]   |
| CTP     | Comité Técnico Permanente [Standing Technical Committee]  |
| DCBP    | Dirección de Catastro y Bienes Patrimoniales [Office of the Property Registry]  |
| ESM     | Environmental Management Division of the ES   |
| FIDECO  | Fideicomiso Ecológico de Panamá [Environmental Trust Fund of Panama]  |
| FIS     | Fondo de Inversión Social [Social Investment Fund]  |
| GIS     | Geographic information system   |
| HDI     | Human Development Index   |
| ICB     | International competitive bidding   |
| LC      | Local Committee   |
| LCB     | Local competitive bidding   |
| MEF     | Ministry of Finance   |
| MGyJ    | Ministry of the Interior and Justice  |
| MIDA    | Ministry of Agricultural Development  |
| MP      | Ministry of the Presidency  |
| NATURA  | Fundación para la Conservación de los Recursos Naturales [Foundation for the Conservation of Natural Resources]   |
| PIOTF   | Indicative Plan for Functional Land Management  |
| PRONAT  | Programa de Administración de Tierras [Land Administration Program]   |
| SCICH   | Secretaría Ejecutiva de la Comisión Interinstitucional de la Cuenca Hidrográfica del Canal de Panamá [Executive Secretariat of the Interagency Commission for the Panama Canal Watershed] |
| UCP     | Unidad Coordinadora del Proyecto [Project Coordination Unit]  |

# Subcuencas en la Cuenca Hidrográfica del Canal de Panamá PN-0139



# Niveles de Pobreza en la Cuenca Hidrográfica del Canal de Panamá (PN-0139)





**PROJECT SUMMARY**

**PANAMA**

**PRIORITY ACTIVITIES IN THE PANAMA CANAL WATERSHED**

**(PN-0139)**

| Financial Terms and Conditions <sup>1</sup>   |                |          |  |  |
|---|----------------|----------|--|--|
| <b>Borrower:</b> Republic of Panama<br><b>Executing agency:</b> Ministry of the Presidency (MP)   |                |          | <b>Amortization period:</b>            | 20 years   |
|   |                |          | <b>Grace period:</b>                   | 5.5 years  |
|   |                |          | <b>Disbursement period:</b>            | 3 years minimum<br>5.5 years maximum   |
| <b>Source</b>   | <b>Amount</b>  | <b>%</b> | <b>Interest rate:</b>                  | Variable   |
| IDB (Ordinary Capital)  | US\$19,860,000 | 57       | <b>Inspection and supervision fee:</b> | 0%   |
| Local   | US\$15,140,000 | 43       | <b>Credit fee:</b>                     | 0.25%  |
| <b>Total</b>  | US\$35,000,000 | 100      | <b>Currency:</b>                       | Dollars of the United States of America from the Ordinary Capital under the Single Currency Facility |
| Project at a glance   |                |          |  |  |
| <p><b>Project objective:</b></p> <p>The main purpose of the project is to meet priority community demand in order to strengthen the dialogue between the government and local communities and ensure coordination with other government agencies in the management of Panama Canal watershed development. The project is divided into three components: (i) property registry and titling (US\$3.5 million); (ii) hydrometeorological network and management tools (US\$1.5 million); and (iii) community initiatives in the watershed (US\$27.6 million).</p> <p><b>Special contractual conditions:</b></p> <p>The following conditions will be included in the loan contract: <b>(i) Conditions precedent to the first disbursement of loan proceeds:</b> (a) the Project Coordination Unit (UCP) must be established (see paragraph 3.2); (b) the Operating Regulations must have entered into force (see paragraph 3.13); and (c) an agreement must be signed between the Ministry of the Presidency and the Social Investment Fund (FIS) and between Fundación para la Conservación de los Recursos Naturales [Foundation for the Conservation of Natural Resources] (NATURA) and the Ministry of the Presidency (see paragraph 3.21). <b>(ii) Special condition during loan execution:</b> (a) within one year after the effective date of the loan contract, the executing agency must establish the Investment Fund and allocate US\$10 million to it (see paragraph 2.17).</p> <p><b>Exceptions to Bank policies:</b></p> <p>See paragraphs 3.11 to 3.14. Fundación NATURA will be hired directly to manage the community investment resources in component III, subcomponent 1.</p> |                |          |  |  |
| <p>Project consistent with country strategy:    Yes [ X ]    No [   ]</p> <p>Project qualifies as:                                SEQ [ X ]    PTI [ X ]                    Sector [   ]                    Geographic [ X ]                    Headcount - 64%</p> <p>Verified by CESI on: N/A</p> <p>Procurement: See paragraphs 3.33 and 3.34.</p>   |                |          |  |  |

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.\*

\* With regard to the inspection and supervision fee, in no case will the charge 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. Background and scope of the operation**

- 1.1 This loan proposal was prepared in response to a request submitted to the Bank by the Government of Panama to finance activities assigned priority by the Panama Canal watershed communities and thus strengthen the activities carried out by the Ministry of the Presidency (MP), the Panama Canal Authority (ACP), and other institutions in this important watershed. The proposed operation will focus on strengthening the dialogue with the local watershed communities, establishing short-term financing facilities for activities assigned priority by the communities, preparing management tools to supplement the ones undertaken by the ACP to monitor the watershed, and designing a long-term financing facility to continue to meet community-driven demand.

### **B. The Canal watershed and its issues**

- 1.2 The Canal watershed and adjacent cities (metropolitan Panama City and Colón) constitute the core economic center in which 75% of GDP and exports are generated and 50% of the total population is concentrated. The watershed has a total surface area of approximately 552,761 hectares (the eastern watershed region with 339,649 hectares and the western watershed region with 213,112 hectares). By Law 44 of 1999, the government decided to officially establish the watershed boundaries and added new reserves to the west of the eastern watershed region. The new area, known as the western watershed region, is considered a water reserve.
- 1.3 The current situation in the Canal watershed shows significant discrepancies in economic and social development between one region and the other. In the western watershed region, where the State presence is very limited, there are high levels of basic unmet needs and high poverty rates, whereas in the eastern watershed region, where State services are better, there is a greater flow of technical cooperation and financial assistance, and more information is available on the situation of its inhabitants and of natural resources there.
- 1.4 **Western watershed region.** This region is marked by scattered small communities, sidelined from the country's economic development. A total of 35,727 inhabitants live in about 500 communities in the region, with difficulties accessing basic services and high poverty rates. The region has a major potential for natural resources, particularly water in the Coclé del Norte, Toabré, Caño Sucio, and Indio rivers. Because there was little social and environmental information, including scant hydrometeorological records in the western watershed region, baseline studies were conducted with Bank support (ATN/JF-7196-PN). While hydrometeorological stations have been built and refurbished, new stations must be constructed and connected to the existing network, and more in-depth hydrological studies need to be performed.

- 1.5 According to the Census findings, community consultation, and the socioeconomic study conducted, the region needs to assign priority to meeting its basic needs. Some 79% of the population works in crop- and animal-farming; 93% of homes lack electric light; 75% cook with wood; 33% do not have running water; 92% of farmers do not have title to their property; and only 9% of occupants hold title to their land. Based on the ACP dialogues with the western watershed region communities, the following priorities were agreed upon: (i) continue community consultation and training for community representatives; (ii) guarantee greater physical presence by and support from the ACP; (iii) ensure land tenure through a property registry and titling plan; and (iv) work through government agencies to resolve the problems and improve the quality of life of the residents. For the western watershed region, which has serious social liabilities, an investment plan needs to be prioritized to respond effectively to community concerns.
- 1.6 **Eastern watershed region.** The Panama Canal currently operates with water supplied by the eastern watershed region, which provides 95% of the raw water purified to supply the 1.4 million inhabitants of metropolitan Panama City. There is a general water use plan for conservation and development (ARI Law 21), which needs to be updated, and a hydrometeorological network in the main rivers feeding the dams with which the Canal operates. The eastern watershed region has a population of 144,000. Its main problems stem from: unregulated industrial development, unplanned urban growth, high pollution levels in the waters of certain rivers, and an agricultural frontier being pushed into vulnerable areas. In the short term, certain hydrometeorological stations need to be modernized, the communities need to be involved in environmental management, and the activities of the various institutions working in the subwatersheds, including the ACP, need to be coordinated through the Interagency Commission for the Panama Canal Watershed (CICH), based on the water use plan, which needs to be updated.

### **C. The Panama Canal Authority (ACP)**

- 1.7 The ACP began operation on 1 January 2000 as an autonomous State-run enterprise. It is a government entity with full legal capacity and administrative and financial autonomy under the 1977 Panama-U.S. treaty and the provisions of the Panamanian Constitution, and pursuant to its Charter and internal regulations. The ACP is responsible for operation of the Canal, its economic management, expansion, maintenance, physical safeguarding, and planning for purposes of national development. In 2004, the ACP invested some US\$209 million in the Canal, generated US\$1.063 billion in income, and yielded a net profit of US\$380 million. The total equity of the ACP thus increased from US\$2.229 billion to US\$2.398 billion—an increase of 7.6% over the previous year.
- 1.8 The ACP is a significant source of employment and income for the country, employing roughly 9,000 people. In its first four years of operation, the ACP has provided the State, through the National Treasury, with US\$1.332 billion in

income. It is expected to have contributed US\$386 million by year-end 2004. Pursuant to the Constitution of the Republic of Panama, the ACP is responsible for the administration, maintenance, use, and conservation of water resources in the Canal watershed and must approve the strategies, policies, programs, and projects, both public and private, that may affect the watershed.

- 1.9 In the framework of these responsibilities and to coordinate the activities and investments necessary in the watershed, along with those requested by the various communities located in the watershed, the ACP established and regulated the CICH. That Commission was created in June 1999 through an ACP board of directors agreement. The purpose of the CICH is to coordinate and integrate efforts and initiatives for watershed conservation and management, promote sustainable watershed development, and attract and coordinate sources of financing for community-driven initiatives. Its members are the ACP, which pursuant to the Charter chairs the Commission, the National Environment Authority (ANAM), Interoceanic Regional Authority (ARI), Ministry of Agricultural Development (MIDA), Ministry of the Interior and Justice (MGyJ), the Ministry of Housing (MIVI), and two nongovernmental organizations (NGOs).
- 1.10 **The Interagency Commission for the Panama Canal Watershed (CICH).** The CICH is made up of a group of Commissioners, a Standing Technical Committee (CTP), and an Executive Secretariat (SCICH). The Commission is governed by internal general regulations and internal operating regulations approved by its Standing Technical Committee. The Standing Technical Committee, the technical arm of the CICH, is made up of technical representatives from the above-mentioned institutions. At the request of the Commissioners or the SCICH, depending on the issues being addressed, the Committee may be expanded to include representatives of other ministries or government bodies.
- 1.11 The SCICH is responsible for CICH administration and operation and consists of the Director, who acts as Executive Secretary, and a staff of eight, including four experts and two field coordinators. The SCICH continues to consolidate the participatory structure for outreach to the watershed communities to establish 31 Local Committees throughout the watershed. It is also pursuing the process of strengthening the Watershed Community Commission (CCC), which is made up of Local Committee representatives and the Expanded Standing Technical Committee of the CICH. The Expanded Standing Technical Committee consists of the current CTP and representatives of other government agencies and the CCC. The SCICH has also prepared guidelines for an immediate action plan to respond to the most urgent community needs, which will receive support under the proposed operation.

#### **D. Expanding Canal capacity**

- 1.12 Cargo traffic through the Canal has grown significantly during its 90 years of operation, in step with economic and political developments, technological

changes, international trade policies, raw materials needs, and the export of processed products from the main economies that benefit from the Panama Canal route.

- 1.13 The ACP's demand studies and models point to growing demand for the Canal route. This potential demand would significantly increase the volume of cargo transported through the Canal, which must be addressed. Importantly, the segment with the strongest growth is container cargo, which tends to use larger ships. The Canal must therefore optimize its operations so that it remains an attractive, competitive route. To that end, the ACP has been implementing plans to optimize its operations system and has upgraded its infrastructure to meet and exceed the level of service users expect. To meet the challenge of remaining an important route, the ACP has identified investment programs to expand capacity and make its operations as efficient as possible. Those programs focus on maximizing output, maintaining the level of service, and enhancing the Canal's reliability using existing infrastructure, with a combination of improvements and changes to operating procedures. The ACP is also conducting studies to determine the feasibility of building larger locks.
- 1.14 The main programs proposed for expanding the Canal's current capacity include: (i) improving the lighting system for the locks to allow Panamax ships to use them at night, whereas such activity is currently restricted to the daylight hours; (ii) straightening the most critical curves in the Culebra Cut, for safety when ships pass one another and to make scheduling more flexible, which would boost sustainable capacity; (iii) providing clients with an additional 0.3 meters of draft in order to increase the value of the Canal's service to its clients and boost the competitiveness of the Canal route; (iv) deepening the Lake Gatún navigable channel, so that more of the lake's volume of water can be used without having to reduce the draft available to ships; (v) widening the Culebra Cut and building a new mooring station near the Pedro Miguel Locks, to maximize usage of those locks; and (vi) building a new spillway in Lake Gatún and replacing the current spillway's gate system, in order to bring Lake Gatún operations in line with security standards on lake management, mitigate the risks of flooding and overflows from high water and thus take full advantage of Lake Gatún's storage capacity.
- 1.15 Due to the complexity of operation of the Canal and the need to keep it an attractive route that uses water as its main resource, these investments must be implemented carefully and thus can be expected to have to be executed in phases according to a demand analysis. This also means that priority investments in the watershed need to be launched to conserve its resources and benefit the community, so that the benefits of the Canal are felt throughout the watershed.

## **E. Ministry of the Presidency**

- 1.16 The Ministry of the Presidency (MP), established by law in January 1958, is part of the general government. Its purpose is to coordinate the functions of the executive branch and serve as the channel of communication for the President of the Republic and the Council of Ministers with other State bodies, ministries, autonomous entities, and the general public. The National Council for Sustainable Development (CONADES) and an Executive Secretariat were created within the operating structure of the Ministry, through Executive Order 163 of November 1996. The Secretariat's duties include serving as a liaison with international organizations and national agencies specializing in sustainable development programs and fulfilling and tracking the commitments undertaken; promoting the drafting and execution of policies, strategies, programs, and projects, taking a comprehensive approach; and fostering culture and the ongoing sharing of information and experience on sustainable development among the various sectors involved in such programs.
- 1.17 CONADES is chaired by the President of the Republic and composed of the Minister-Coordinator of the National Economic Council, the Minister-Coordinator of the Social Cabinet, the Director of ANAM, the President of the Legislative Committee on Population, Environment, and Development, a representative of the National Private Enterprise Council, an NGO representative, a representative of the National Council of Organized Labor, and a representative of the indigenous sector. The Social Emergency Fund (FES) operated under the MP from 1991 to 1998, and it has been implementing the Social Investment Fund (FIS) with financing from the IDB, the World Bank, and the Government of Taipei China.<sup>1</sup> The ministry's experience, particularly with the FIS, was taken into account, and much of its installed capacity will be useful in supporting execution of this operation.

## **F. Sources of financing in the watershed**

- 1.18 In addition to the government institutions that are financing activities, there are other sources of funding for certain watershed initiatives, especially in the eastern watershed region. For instance, there are USAID resources for management of three subwatersheds in the eastern watershed region (US\$2.5 million) and arranged a US\$5 million debt swap for management of the Chagres River subwatershed, to be administered by Fundación NATURA. Sources of investment funding include the government-sponsored Social Investment Fund (FIS) and, among nongovernmental organizations, the Environmental Trust Fund of Panama (FIDECO). FIDECO is administered by Fundación NATURA, a not-for-profit organization, and finances initiatives in five areas of activity (agroforestry, biodiversity conservation, pollution abatement, management of protected areas, and ecotourism), all located in the eastern watershed region, using some 40% of the

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<sup>1</sup> Use of the phrase "Taipei China" does not in any way reflect a position by the Bank or any of its member countries regarding issues of national sovereignty or diplomatic recognition.

trust fund income (totaling US\$650,000 annually) distributed throughout the country. FIDECO has a limited impact on the western watershed region and has not been able to meet the needs assigned priority by the community. The FIS supports initiatives at the national level that are included in the government's social agenda and in many cases are not responsive to community needs because the communities lack the capacity to formulate their own initiatives. However, these investments do not constitute ongoing or planned support under a comprehensive strategy for watershed development.

- 1.19 Article 40 of the ACP Organizational Act stipulates that the CICH, through the ACP and with its coordination and guidance, must establish a facility or system for financing and the administration of financial resources for implementation of the authorized projects it deems relevant. In order to ensure funding for the priority watershed initiatives, a financing facility is to be established to meet needs and priorities in the short and medium terms, respectively. To this end, the government and the SCICH will implement a fund-raising plan to channel investments to the priorities with a high social impact identified by the western and eastern watershed region inhabitants through the dialogue organized with the communities. Additional resources are needed to implement the plan, to supplement existing resources or to serve geographic areas or areas of activity not covered under the national investment plans.
- 1.20 Due to the nature of its functions, the ACP cannot support projects that would fall within the sphere of competence of other institutions. Accordingly, the government, through the Ministry of the Presidency, plans to promote the role of the CICH as coordinator, since its membership represents the different government institutions involved. It will thus guide and help implement the community initiatives. A facility will therefore have to be designed to both meet the priority short-term needs of the communities (preinvestment and investment resources) and provide a source of long-term financing (the Investment Fund) to support the investments identified under the program for sustainable watershed development currently being formulated with Bank support.

#### **G. Project design and scope**

- 1.21 The project is designed to provide an immediate response to a community whose basic needs have been neglected for a long time. In this context, it focuses on consolidating the progress achieved in the dialogues undertaken and to follow up on and respond to the needs identified at the various workshops for community outreach and consensus building. The project is conceived as an operation for gradual development of the watershed, with heavy participation by the communities involved and institutions responsible for the various sectors, based on sustainable management of natural resources. To address the problems raised, a number of activities have been identified and divided into three groups: (i) property registry and titling, using the methodology established by the government agencies

responsible for such matters; (ii) rehabilitation and expansion of the hydrometeorological and water quality network, and preparation of supplementary management tools for monitoring the watershed; and (iii) establishment of financing facilities for the initiatives assigned priority by the communities.

- 1.22 Through the MP and with the support of the CICH, the government requested the proposed loan to provide short-term support for consolidating community consultation and resolving basic unmet needs in the communities, while continuing the studies identified by the ACP. In addition, a long-term financing facility will be designed under the proposed operation to help channel and attract contributions by other donors for watershed development, address community needs, and conserve local natural resources in the long term. The government views this operation as a first step to integrate its activities in the watershed with the ACP's and to build links and carry out future activities with multilateral and private financial institutions that may eventually finance the investments required in the coming years, particularly under the program for sustainable watershed development.

#### **H. Relationship with other projects and lessons learned**

- 1.23 The proposed operation is fully consistent with the government program, since it will help improve the use of natural resources and will be a key element in meeting community demands in an organized manner. The operation will supplement other projects financed by the Bank and other donors, in particular the Land Administration Project (PRONAT, cofinanced by the IDB and World Bank) (loan 1427/OC-PN), the ANAM National Environment Program (loan 1222/OC-PN) and the Social Investment Fund (FIS) (loan 1226/OC-PN). With regard to the property registry and titling, the operation will follow the technical and operational guidelines developed by the institutions involved in PRONAT.
- 1.24 For preparation of the proposed project, lessons learned were drawn from the experience gained in similar projects, especially ones that included the compilation of baseline data and community outreach for consultation and consensus-building designed to ensure more active community participation. The positive experience from the following projects was incorporated: the Darien sustainable development program (PN-0116 [loan 1160/OC-PN]), the national environment plan (PN-0122 [loan 1222/OC-PN]), the agricultural modernization program (PN-0032 [loan 924A/OC-PN]), and the Bocas del Toro sustainable development program (PN-0149 [loan 1439/OC-PN]), which are all ongoing. The proposed project will be based on the experience of the above projects and will reflect the experience gained directly with the ACP in the execution of operation ATN/JF-7196-PN, along with the ongoing PRONAT and USAID projects also being executed by the ACP.
- 1.25 Through operation ATN/JF-7196-PN the Bank supported the ACP in preparing a sustainable development strategy for the watershed. Specifically, with Bank support, the ACP has completed the following activities: (i) it launched operation of



the CICH with its respective working committees; (ii) it recruited and strengthened the special teams needed in the ACP for direct outreach to western watershed region communities; and (iii) it identified and established a methodology for information and consensus-building between the various stakeholders and the institutions operating in the watershed. In addition, the baseline environmental, sociocultural, and socioeconomic studies have been completed, as has the Indicative Plan for Functional Land Management (PIOTF) for the western watershed region. This progress notwithstanding, certain studies remain to be completed, especially the feasibility and environmental studies on several water projects the ACP is conducting with its own resources. While the ACP is continuing to perform its studies, the government has indicated that priority needs to be assigned to working with the western and eastern watershed region communities to provide an immediate response to their basic needs.

- 1.26 The foregoing has helped the ACP establish a substantial relationship with the Bank, by applying positive experiences from other projects, especially with respect to methodologies for community outreach at all levels, natural resources management, international standards for involuntary resettlement, and so forth, which are essential for any project that will involve the use of available watershed resources. Graph I-1 plots the timing of the proposed operation, the technical and engineering studies the ACP has been conducting with its own resources, and the environmental and socioeconomic studies for which it has received technical cooperation funding.

| Graph I-1. Relationship between ATN/JF-7196-PN, technical studies, and priority investments         |      |      |      |      |      |      |      |      |  |  |  |  |  |
|---|------|------|------|------|------|------|------|------|--|--|--|--|--|
| Watershed activities  | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |  |  |  |  |  |
| <b>A. Expanding Canal capacity. Technical and engineering studies (financed with ACP resources)</b> |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Studies on new waterways in the eastern and western watershed regions                               |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Analysis of water project alternatives  |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Selection and development of alternatives   |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Environmental assessment of specific projects   |      |      |      |      |      |      |      |      |  |  |  |  |  |
| <b>B. Environmental and socioeconomic studies (financed with resources from ATN/JF-7196-PN)</b>     |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Socioeconomic studies in the western watershed region   |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Environmental and cultural studies in the western watershed region                                  |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Sociocultural studies in the western watershed region   |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Updating the water use plan for the eastern watershed region  |      |      |      |      |      |      |      |      |  |  |  |  |  |
| Sustainable development strategy and the PIOTF for the western watershed region                     |      |      |      |      |      |      |      |      |  |  |  |  |  |
| <b>C. Priority activities in the Panama Canal watershed (PN-0139)</b>                               |      |      |      |      |      |      |      |      |  |  |  |  |  |

## I. The Bank's country strategy

- 1.27 The Bank's country strategy focuses on four priority areas: (i) a frontal attack on poverty and equity enhancement; (ii) economic reforms to enhance competitiveness and growth; (iii) consolidation of the legal, regulatory, and institutional framework for sustainable growth; and (iv) institutional reforms to improve governance and transparency. The proposed operation is consistent with the country strategy in that it will promote sustainable development by addressing factors in poverty, environmental degradation, and vulnerability. The proposed activities are also consistent with the strategy established by the government, particularly with respect to deepening social equity, ensuring geographical and social integration of the country, and reconciling the needs for growth and environmental sustainability.
- 1.28 With its priority focus on the watershed, the operation is designed to provide an immediate response to local communities in the western watershed region, address their historic infrastructure deficit, and reduce their high poverty levels. In the context of the investment programs identified by the ACP to expand the capacity of the Canal and optimize its operation, the project is strategic at the regional level because of the considerable biological and water resources at stake and their potential as a reserve to supply water for future stages of Canal growth, the alternatives for which are currently being explored.

## **II. THE PROJECT**

### **A. Objectives**

- 2.1 The main purpose of the project is to meet priority community demand in order to strengthen the dialogue between the government and local communities and ensure coordination with other government agencies in the management of watershed development. Another project objective is to prepare management tools to supplement those already undertaken, to support integrated management of the Panama Canal watershed using a socially and environmentally organized, participatory approach.

### **B. Description and components**

- 2.2 The proposed operation will finance priority activities and, in certain cases, activities to supplement those already undertaken (ATN/JF-7196-PN). Financing will be provided for consulting services, community outreach workshops, procurement of equipment and outfitting of hydrometeorological stations, property mapping, and demand-based small projects for basic services and to support crop-farming and animal-farming by local communities in the watershed. The activities are specifically designed to: (i) improve relations between the community, the government, and CICH; (ii) help ensure security in land tenure; (iii) improve the content and accuracy of data on water resources and prepare additional management tools for watershed management; and (iv) establish special financing facilities to ensure a direct response to community initiatives in both the short and long terms. To meet these objectives, project execution has been divided into three components.

#### **1. Property registry and titling in the western watershed region (US\$3.5 million)**

- 2.3 This component includes the additional costs related to all the activities needed for implementation of the property registry and titling in the western watershed region and the activities to support the process. The purpose of this component is to guarantee security in land tenure for inhabitants and provide property registry information on the entire western watershed region, to promote sustainable development.
- 2.4 Based on the methodology established for the Land Administration Project (PRONAT), with the support of the competent institutions, property registration and titling will be carried out for plots totaling 213,112 hectares, in order to prevent displacement of the local population by speculators and the opportunistic invasion of land. To ensure high priority for project execution, local counterpart resources will finance the activities for: (i) titling of 197,000 hectares of land; (ii) titling for

land in 100 rural localities with 50 to 499 inhabitants; (iii) titling of land in nine land-holding campesino communities (*ejidos*) of over 500 inhabitants; and (iv) preparation of forest use statements for all agricultural and forestry development purposes. Activities will also be carried out to support the property registration and titling (such as community outreach, training, and technical support).

- 2.5 **Component goals.** The component targets the following goals in the western watershed region: deliver approximately 14,000 property titles and regularize existing titles for the current occupants as follows: (i) 7,000 titles for agroforestry farms and approximately 2,000 titles to plots in rural localities; (ii) approximately 1,500 titles through the respective municipalities to plots in the nine municipal *ejidos* (Coclesito, Vaquilla, Miraflores, San Pedro, San Miguel Centro, Sagrejá, Chiguirí Arriba, Tambo, and Toabré); and (iii) supervise the recording of forest use statements.

## **2. Hydrometeorological network and management tools for the watershed (US\$1.5 million)**

- 2.6 This component includes the activities for modernization and expansion of the hydrometeorological network in both the eastern and western watershed regions and activities to support its installation and operation. The purpose of this component is to improve assessment of water resources and increase accuracy in the data on water quantity, quality, seasonal and spatial distribution, potential for development, and capacity to meet current and future demand for water supply. In addition, support will be provided for a series of key additional activities to provide watershed management tools.
- 2.7 The hydrometeorology and water quality network for the entire watershed will be expanded and modernized, and the data compiled will be processed, managed, and released according to user needs. The component activities include the following: (i) for the Lake Alhajuela subwatershed, installation of a meteorological station to record lake-level evaporation and another meteorological station at the average subwatershed elevation; (ii) two rainfall stations in the Limpio area; (iii) installation of the Indio Este water station; (iv) for the Lake Gatún subwatershed, installation of five water quality stations in the Gatuncillo, Caño Quebrado, Chilibre, Chilibrillo, and Agua Sucia river subwatersheds; and (v) for the western watershed region, rehabilitation of four stations purchased from ETESA, a power transmission company (Uracillo, Batatilla, Cañones 2, and Canoa), and installation of six water stations (Tres Hermanas, Boquilla de Escobal, Santa Rosa, el Silencio, Las Marias, and San Vicente) and 11 water and meteorological stations. In addition, a water quality model will be procured.
- 2.8 Also under this component, progress will be made on integrating watershed management tools, including: (i) a geographic information system (GIS); (ii) an

Indicative Plan for Functional Land Management (PIOTF); and (iii) studies to more precisely quantify future water volumes and prices.

- 2.9 **Component goals.** The component targets the following goals: (i) install six water stations; (ii) rehabilitate four existing water stations; (iii) establish a network of five water quality stations; (iv) install 14 meteorological stations; and (v) conduct additional activities to provide a geographic information system and an Indicative Plan for Functional Land Management for the entire watershed and studies on water availability and prices.

### **3. Community initiatives in the watershed (US\$27,595,000)**

- 2.10 The primary purpose of this component is to: (i) provide an immediate response to the community by making resources available for financing priority projects; and (ii) create an Investment Fund to ensure effective, comprehensive responses to the demand generated and assigned priority by the watershed communities on a sustainable basis in the medium term. The facility will lay the foundation for development of a management model that can be applied once the sustainable development and integrated management of Panama Canal watershed water resources strategy is formulated and implemented. Execution of the component has been divided into two subcomponents.

#### **a. Community investments (US\$17,395,000)**

- 2.11 Under this subcomponent, activities will be carried out to strengthen the dialogue with the communities and preinvestment and investment resources will be allocated to finance short-term investments for projects identified and assigned priority by the communities.
- 2.12 **Strengthening dialogue with the communities (US\$300,000).** This activity consists of consulting services, training workshops, and working round tables, including the attendant travel expenses, to help administer and support the establishment and consolidation of community-based organizations and installation of community facilities for interagency coordination. The purpose of this activity is to: (i) establish and consolidate institutional mechanisms to strengthen and broaden the current linkage between the MP, CICH and the communities, in order to ensure the development of strategic partnerships between the various watershed stakeholders; and (ii) organize and train local communities and governments so that they can identify and formulate projects for submittal to prospective sources of financing.
- 2.13 The component activities include the following: (i) guarantee the upgrading and outfitting of coordination facilities so that direct contact can be established to strengthen the dialogue with the communities and expand community information, training, and organization; (ii) conduct outreach workshops and working round

- tables (with the LCs and CCC) and organize training to provide an incentive for participation in the dialogue to identify problems and devise solutions; and (iii) facilitate the organization of civil society (producer associations, community associations, and water boards, among others), so that the organizations can take over project operation and maintenance in their respective areas of activity. These activities will strengthen the communities and build up their capacity to handle their own solutions.
- 2.14 **Investments (US\$17,095,000).** Resources will be allocated for preinvestment and investment in support of the activities being carried out in the watershed to ensure an organized response to initiatives with a high social impact. To respond to this community-driven demand, the resources will be available over a five-year period while the Investment Fund is being structured and consolidated. The resources will have two uses or windows: a preinvestment window (US\$300,000), to formulate sustainable production and technical assistance projects; and an investment window (US\$16,795,000) to finance the most urgent local demand.
- 2.15 In coordination with the competent authorities, a response will be provided to the community demand indicated in the Local Committee action plans, in accordance with the results of the activities to be carried out to strengthen the ongoing dialogue. The plans will be incorporated into the Immediate Action Plan, which includes projects identified and assigned priority by the communities in the eligible categories stipulated in the Operating Regulations for Community Investments. According to those regulations, specific projects will be financed in the following eligible categories, based on specific resource-allocation criteria: (i) **protection, conservation, and management of natural resources**, including reforestation, sustainable forest management, and natural risk prevention; (ii) **basic infrastructure**, including the construction and rehabilitation of health posts, schools, rural water supply systems, solid waste disposal, and rural roads to support local production, and latrines or septic tanks; (iii) **technical assistance and incentives to support sustainable production systems**, including improved agricultural technology at the farm level, small animal farms and nurseries, and sustainable production and marketing systems. The following groups may submit initiatives and projects for financing: groups of small producers, community-based organizations, and microentrepreneur groups that, with the support of government institutions and the participation of local residents, carry out activities for conservation and development in the Canal watershed. The Operating Regulations will include the criteria for project selection and evaluation.
- 2.16 **Community initiative subcomponent goals.** This subcomponent targets the following goals in the watershed: (i) conduct 20 working round tables at the subwatershed level; (ii) hold 40 training workshops on topics connected with preparation of initiatives and projects; (iii) install six duly outfitted coordination centers; and (iv) prepare at least 20 investment projects for the communities to gain access to the investment fund. The component goals also include: (i) finance at least

40 preinvestment initiatives designed to expedite and provide an incentive for access to existing sources of investment financing; and (ii) finance at least 100 investment initiatives in the above-mentioned investment categories and sectors.

**b. Investment Fund (US\$10.2 million)**

- 2.17 Using resources from this subcomponent, a financing facility will be established to ensure a sustainable response to community demand in the medium term. Funding will be provided for the design, promotion, and structuring of the Investment Fund (US\$200,000) and its startup with US\$10 million in seed capital to be contributed by the ACP. The Investment Fund should eventually grow through contributions from other sources and donors so that it can respond on a sustainable basis to future demand for watershed management projects. **As a special condition during loan execution, within one year after the effective date of the loan contract, the executing agency must establish an investment fund and allocate US\$10 million to it.**
- 2.18 The government and CICH will raise funds in Panama and abroad and launch the fund. Investment Fund income will be capitalized during the project execution period for the proposed operation. In the sixth year, or first year after project completion, fund resources can begin to be used, in accordance with the Operating Regulations.
- 2.19 **Investment Fund subcomponent goals.** The goals targeted for this subcomponent are for the activities that can be carried out during the first two years of project execution, as follows: (i) establish and structure the Investment Fund using the seed capital contributed by the ACP in the first year; (ii) carry out activities for the official launching of the Investment Fund; (iii) hold round table discussions and workshops with prospective donors from Panama and abroad; and (iv) formulate the Operating Regulations for the Investment Fund that will govern it and the management system that will enable it to remain in operation.

**C. Project sizing**

- 2.20 In sizing the project and establishing the respective activities, account was taken of the constraints on resource allocation on the part of the government and the ACP. The project calls for the investments necessary to provide a solution to the problems assigned priority, since resolving all the problems identified would require more resources and more time. Accordingly, a phased-in approach was adopted for the project activities, particularly those to be carried out under component III.
- 2.21 Component I was sized based on the needs for titling and land demarcation in the western watershed region expressed by the communities in the socioeconomic studies conducted and the requirements identified using the PRONAT

methodology. For component II, only those strategic investments and activities assigned priority that will help address the most urgent demand for hydrometeorological data for the purposes of the project were included. The activities to strengthen the dialogue under component III were sized according to the beneficiary population and the number of Local Committees the watershed will have to represent and train all of the Local Committee members. The training and organization activities were also sized to meet the same representativeness criterion.

- 2.22 The community investments under component III were sized based on an indicative sample of projects in the eligible categories under the Operation Regulations. Of the 513 communities in the western watershed region, only 256 (or 50%) have some infrastructure, and most of these (151 or 59%) have only three infrastructure elements. The need and demand for these elements is therefore high. Moreover, because the western region economy is small and extremely poor, it needs to grow, increase productivity, and improve its linkage with consumer markets in the closest cities. However, this subcomponent was not designed to respond to all watershed needs but to begin the process of responding to the most urgent needs of the communities and to act as an example or almost as a pilot project to begin cooperation and coordination between, on the one hand, the MP and CICH and the other government agencies involved in the watershed and, on the other hand, the communities, which are barely beginning to have a more direct dialogue specifically about their problems. This process will be used as the foundation for the next phase, once the Investment Fund becomes operational with contributions from other donors.
- 2.23 Given the resources available, a modest portion of the initiatives will be financed, representing approximately 30% of priority needs identified in the watershed. Based on the field studies conducted by CICH and the first action plans that include investments requested by the communities, only some 12% of total demand, estimated at US\$150 million, can be covered over the next five years. Other funds are expected to help respond to part of the demand, in particular the FIS, FIDECO, and USAID. Major investments and projects for the watershed would be financed later, once the watershed development strategy currently in preparation with Bank support is implemented.

#### **D. Cost and financing**

- 2.24 The total cost of the project is an estimated US\$35 million. A breakdown of costs by investment category and source of financing is shown in Table II-1. The Bank will finance 57% of the program cost, US\$19.86 million in dollars of the United States from the Ordinary Capital under the Single Currency Facility. The government, through the local counterpart contribution and own resources, will contribute the other 43% of the cost, US\$15.14 million. The proposed terms and conditions for the Bank loan are: (i) amortization period: 20 years; (ii) term for



disbursement: minimum three years and maximum five and a half years; (iii) grace period: five and a half years; and (iv) interest rate: variable.

**Table II-1**  
**Cost and financing table**  
**(in thousands of US\$)**

| <b>Investment Category</b>                                   | <b>IDB</b>    | <b>Borrower</b> | <b>Total</b>  | <b>%</b>    |
|--|---------------|-----------------|---------------|-------------|
| <b>I. Direct costs</b>                                       | <b>17,595</b> | <b>15,000</b>   | <b>32,595</b> | <b>93.1</b> |
| 1. Property registry and titling in western watershed region | 0             | 3,500           | 3,500         |             |
| 2. Hydrometeorological network and management tools          | 0             | 1,500           | 1,500         |             |
| 3. Community initiatives in the watershed                    |               |                 |               |             |
| 3.1 Community investments                                    | 17,395        | 0               | 17,395        |             |
| 3.2 Investment Fund  | 200           | 10,000          | 10,200        |             |
| <b>II. Administration and supervision</b>                    | <b>2,265</b>  | <b>0</b>        | <b>2,265</b>  | <b>6.5</b>  |
| 1. Project Coordination Unit (UCP) and Advisory Committee    | 1,865         | 0               | 1,865         |             |
| 2. Auditing and evaluation                                   | 150           |                 | 150           |             |
| 3. Monitoring and evaluation system                          | 250           | 0               | 250           |             |
| <b>III. Financial costs</b>                                  | <b>0</b>      | <b>140</b>      | <b>140</b>    | <b>0.4</b>  |
| 1. Interest*   | 0             | 0               |               |             |
| 2. Credit fee  |               | 140             | 140           |             |
| 3. Inspection and supervision                                | -             | -               | -             |             |
| <b>Program total</b>   | <b>19,860</b> | <b>15,140</b>   | <b>35,000</b> | <b>100</b>  |

\* During negotiations, the government indicated that the estimated US\$2.86 million in interest was not included in the table and would be paid out of the national budget.

- 2.25 The category “Administration and Supervision” (US\$2,265,000) includes financing to defray the following costs: (i) the UCP, with the staffing, equipment, and resources necessary for operation and logistical support for the five-year project execution period, in the amount of US\$1,865,000; and US\$200,000 for the Advisory Committee, for attending national and international work meetings and US\$200,000 for the area coordinators, to support CICH’s work for up to three specific needs; (ii) auditing of the project for US\$100,000, and the midterm evaluation agreed upon, for US\$50,000; and (iii) the project monitoring and evaluation system, including implementation of the system, for US\$250,000.

### III. PROJECT EXECUTION

#### A. The borrower and executing agency

- 3.1 The borrower will be the Republic of Panama, and the executing agency, the Ministry of the Presidency (MP), through the Executive Secretariat of the National Council for Sustainable Development (CONADES) and with the support of the Project Coordination Unit (UCP). The ACP, through its Security and Environment Department (ES) will act as coexecuting agency for components I and II, and the Secretariat of the Interagency Commission for the Panama Canal Watershed (SCICH), through Fundación NATURA and the Social Investment Fund, will be the coexecuting agency for component III. In addition, the executing agency will have a Project Steering Committee to provide the general guidelines and integrate the various project-related initiatives and an Advisory Committee to provide advice and guidance for a comprehensive approach to watershed management and development. Both the MP and CICH have a good track record in the execution of activities in the watershed with the Bank and other multilateral financing institutions.
- 3.2 **Project Coordination Unit (UCP).** The UCP will be the unit responsible to the Bank for project coordination and execution and will have a staff of five: a senior coordinator reporting to the MP and responsible for proper project execution; a professional administrator in charge of accounting, the budget, and administration, two experts responsible for monitoring the three components, and one administrative assistant and support staffer. The UCP will also receive administrative support from the Executive Secretariat of CONADES, and needs-based support from the ACP and CICH staff, if needed. **As a special condition precedent to the first disbursement, the UCP must be established and the senior coordinator, professional administrator, and expert appointed, in accordance with the terms of reference agreed on with the Bank.**
- 3.3 The UCP has the following duties: (i) coordinate, manage, monitor, and oversee the project; (ii) support SCICH in preparing project-related information for the Bank; (iii) prepare and submit the indicative annual budget for the three components for consensus building and approval by the Steering Committee; (iv) monitor and supervise calls for bids and the awarding of contracts for which it is responsible; (v) open the bank account and report to the Bank on the status of the revolving fund; (vi) prepare the consolidated financial statements of the project, and prepare and submit disbursement requests for the loan; and (vii) oversee compliance with the Operating Regulations for Community Investments under component III.
- 3.4 In order to track local counterpart resources, the borrower, with the support of the UCP, will maintain: (i) specific bank accounts for administration of those resources; (ii) a proper contract administration system; (iii) an accounting system

acceptable to the Bank, identifying in detail the resources disbursed for the activities financed with local counterpart resources; (iv) supporting documentation on project expenses; and (v) it will also prepare the pertinent financial statements.

- 3.5 **Project Steering Committee (CDP).** The CDP will lay out the general guidelines and policies and will help maintain a comprehensive approach to the project activities, taking into account the other ACP initiatives under way in the watershed. It will be made up of representatives of the Ministry of Finance (MEF), the Executive Secretariat of CONADES under the MP, the CICH Commissioner, the ACP, two representatives from the CCC, and the senior coordinator of the UCP, who will serve as Committee Secretary. The CDP's main duties will include: (i) approving the indicative annual budget submitted by the UCP, which will include the budget for component III guaranteed by CICH; (ii) advising on technical matters that may have an impact on project execution; (iii) keeping the senior management of the MEF, the ACP and MP apprised of project progress; and (iv) resolving any problems that may arise during project execution among the various parties involved. The establishment of the CDP in the first year of execution will be a condition for the borrower.

## **B. Project and component execution**

- 3.6 **Project execution.** At the beginning of each year, the UCP will prepare the indicative annual budget with the overall amounts for each project component, which will be submitted to the CDP for approval, as required, and subsequently disseminated. Based on the budget agreed upon, the respective components will be implemented as described in the paragraphs below.
- 3.7 **Component I execution.** The property registry and titling will be carried out by the specialized government agencies involved (MIDA, Registry Office, ANAM, and MGyJ), following the methodology established under the PRONAT program and pursuant to the agreement entered into by the ACP and MIDA. The Environmental Management Division (ESM) will have technical and operational responsibility for these activities and for awarding contracts and carrying out other activities to support component I. The UCP will be responsible for the corresponding administrative oversight.
- 3.8 **Component II execution.** Station construction and rehabilitation will be carried out by the ACP through the ESM, which will hold technical and operational responsibility for these activities. In addition, the ESM will carry out the activities for installation and modernization of the stations (such as information and consensus-building with the communities, technical support, access roads and basic services for observers), and it will also be responsible for the activities referred to in paragraph 2.8. The UCP will be responsible for the corresponding administrative oversight.

- 3.9 **Component III execution.** Because community investments will be demand-driven, they will be executed in accordance with the development strategy crafted for the watershed (the PIOTF for the western watershed region and sustainable development and integrated management of watershed water resources strategy and general usage plan for the eastern watershed region) and will be governed by Operating Regulations for Community Investments agreed on with the Bank.

### **1. Community investment subcomponent**

- 3.10 The resources earmarked for this subcomponent will be administered by Fundación NATURA (Panamanian Foundation for the Conservation of Natural Resources) and the FIS, which will issue calls for bids for the investments following Bank procurement procedures. CICH, through its Executive Secretariat, will have operational responsibility for monitoring these activities. To strengthen it for this purpose, area coordinators will be hired to support the communities in project selection and project profile preparation. The UCP and SCICH will carry out the necessary supervision and administrative oversight of both Fundación NATURA and the FIS. Based on the reports submitted by both entities on the progress achieved in the different community initiatives, the UCP will carry out the necessary supervision and administrative oversight to ensure compliance with the conditions set forth in both the agreements signed with Fundación NATURA and the FIS and the Operating Regulations for Community Investments.
- 3.11 Fundación NATURA is a not-for-profit foundation with extensive experience in the management and administration of this type of fund, procurement, and other activities similar to those called for under the project. It is structured appropriately for execution of these activities, and its staff have the experience necessary for their supervision and evaluation in the field. Furthermore, Fundación NATURA acts as administrator of the FIDECO fund for the government and of the Environmental Investment Fund (FOAMBI) for ANAM (loan 1122/OC-PN), and for ACP-USAID, administering the fund earmarked for subwatershed conservation and recovery in the eastern watershed region with positive results. It is recommended that Fundación NATURA be hired directly without a competition because: (i) no other organizations has staff available with the capacity and experience that Fundación NATURA has; (ii) it has extensive knowledge of the watershed and an established relationship with the institutions working and communities living there; (iii) it has experience with international organizations and Bank projects; (iv) its performance in similar projects has been very good; (v) it has a system to ensure quality control and post-execution support; and (vi) it has qualified consultants and an effective hiring system. These factors are consistent with the rules for sole sourcing set forth in section GS-403 of the Procurement Manual.
- 3.12 Fundación NATURA and the FIS will be accountable to the UCP for the following duties, in accordance with the contract and their respective agreement: (i) open and maintain specific separate bank accounts for administration of the loan proceeds;

- (ii) maintain an accounting records system to make it possible to present detailed records on the activities financed with the loan proceeds and local counterpart funding to community projects; (iii) present financial statements on the resources they administer; and (iv) maintain files with the supporting documentation on eligible project expenses.
- 3.13 The community investments will be governed by the Operating Regulations for the Community Investments, which will stipulate the procedures for project execution, the eligibility criteria, and the duties to be discharged by Fundación NATURA and the FIS. Those regulations will include the following: (i) the subcomponent objectives; (ii) the principles governing the use of the resources for preinvestment and investment activities; (iii) the structure of project execution; (iv) the beneficiary selection criteria; (v) the procedures for promotion, application, selection, approval, and evaluation of the initiatives; and (vi) supervision and oversight of the operation. They will also include the rules and procedures for execution of the investments, including eligible project categories, eligibility criteria, selection criteria for each category, maximum amount of financing by category, procedures for the preparation and evaluation of project sustainability and viability, procedures for procurement and the awarding of contracts for goods and services, and the methodology for project monitoring. The Operating Regulations for Community Investments may be modified, provided that no substantial change in their contents is made, subject to a written statement of nonobjection by the Bank. **As a special condition precedent to the first disbursement, the Operating Regulations for Community Investments previously agreed upon by the executing agency, SCICH, and the Bank must have entered into force.**
- 3.14 The Operating Regulations will stipulate that eligibility for projects and activities in all the eligible categories will be governed by the following general criteria: the projects and activities must be assigned priority and requested by the communities; they must include activities to promote rural social development; they must help generate income and reduce poverty; they must include community participation and organization and address gender issues; they must help reduce vulnerability factors; they must contribute to improving the quality of life in the communities; and they must help improve environmental conditions. The Operating Regulations will also stipulate that to be approved, the projects must meet specific evaluation criteria, which will include the following: project execution, operation, and maintenance must be within the appropriate technical expertise of the beneficiary communities, which must be organized, and the projects must be financially feasible at the producer level. Among other activities, training workshops and working round tables will be organized to help strengthen the communities and provide assistance.
- 3.15 **Processing community investments.** With technical support from the SCICH area coordinators, the communities will submit project profiles to their respective Local Committees, which will verify their initial eligibility according to the Operating

Regulations. Based on the profiles, the Local Committees will prepare their respective annual community action plans according to their priorities. The plans will then be forwarded to the Watershed Community Commission (CCC), which will consolidate them, selecting the projects based on a second prioritization, until they reach the budget cap approved for the subcomponent.

- 3.16 Subsequently, the CCC will submit the plan to the CICH Expanded Standing Technical Committee (CTPA), through the CICH Secretariat, for its information and approval by the CICH Commissioners. The Secretariat and Standing Technical Committee will also screen out the projects and activities that can be executed by government agencies and/or financed under other programs, forwarding them to the respective agencies and leaving only those eligible for financing under the community investment subcomponent. After reviewing and approving the final list of projects, the CICH will forward it to Fundación NATURA and the FIS, as appropriate, for implementation. Once the technical, institutional, financial, legal, and environmental viability of each project is determined by experts hired for this purpose, Fundación NATURA and the FIS will issue the calls for bids, award the contracts for the projects, and oversee their execution. The UCP will ensure general coordination and administrative support for all the activities.
- 3.17 **Financial sustainability and cost recovery.** The financial sustainability of the productive projects will be based primarily on projects that have a market, are profitable, and yield returns. Secondly, the projects must have a maintenance plan if required, such as in cases of small water supply projects. In the case of projects for public goods and community organizations, sustainability will be ensured from the onset by tailoring project design and scope to community capacity and willingness to pay for operation and maintenance. Rates must be set according to beneficiary ability to pay and governed by a collection system that may be implemented through consulting services financed by the respective project, until such time as the community is prepared to assume that responsibility, which must occur within a maximum period of three years.
- 3.18 The financing for productive projects will be granted subject to cost-sharing depending on the type of project and ability to pay of the beneficiary, on the following conditions: (i) the producer must contribute at least 50% of the investment costs for his or her project according to the business or production plan prepared in line with his or her capacity; and (ii) the beneficiary producer must agree to repay the amount of the inputs received to his or her Local Committee so that the latter can redistribute it to other beneficiaries, in accordance with preestablished criteria. For community public goods, up to 90% of the studies and projects declared eligible and viable will be financed. Their sustainability will be ensured through collection systems such as the one mentioned in the above paragraph. No cost recovery system will be established for the project itself, but mechanisms will be explored for repayment to the organizations themselves.

## **2. Investment Fund subcomponent**

- 3.19 The purpose of the Investment Fund is to continue sustainable development in the watershed after execution of the proposed project. The government, with the support of SCICH, will take all the necessary steps to structure and establish the Investment Fund and promote it so as to attract local and international donors.
- 3.20 The projects to be financed in the watershed using Investment Fund resources will be governed by Operating Regulations, which will be structured based on the experience gained during execution of the proposed operation and donor requirements.

### **C. Transfer of the loan proceeds for the project**

- 3.21 The loan proceeds will be transferred directly to the MP, which will deposit them in the project bank account indicated by the Secretariat of that ministry's National Council for Sustainable Development, and they will be administered through a revolving fund. The UCP will make the necessary transfers to Fundación NATURA and the FIS, through revolving funds in a special account indicated and managed by the latter two entities. The fund will be replenished based on requests submitted to the Bank by the ministry's UCP, through Fundación NATURA and the FIS, and cleared by SCICH. **As a special condition precedent to the first disbursement, the executing agency must have signed a contract with Fundación NATURA and an agreement with the FIS** stipulating, among other provisions, that: (i) project activities must be carried out according to the terms and conditions established in the Operating Regulations for Community Investments; and (ii) Fundación NATURA and the FIS must administer the corresponding resources according to the terms of the loan contract and must carry out the activities in accordance with the Bank's procurement procedures.

### **D. Recognition of previous expenditures**

- 3.22 Given the priority established for components I and II of the project, the ACP initiated some of the activities identified with Bank support, such as mapping, property mapping, titling, and the procurement of equipment for the new hydrometeorological stations. The government has requested that the Bank recognize US\$3.5 million in expenses incurred after 26 July 2003 for such activities as part of the local counterpart funding, to which end it will submit a record of the investments made for activities previously agreed upon with the Bank. It has thus made substantial progress in those components and other activities under the project. The previous expenditures may be recognized provided they were in compliance with the loan contract and the applicable Bank policies.

## **E. Execution period and timetable for disbursement**

- 3.23 The execution period will be five years from the effective date of the loan contract. The tentative disbursement schedule is shown in Table III-1 below:

**Table III-1**  
**Tentative disbursement schedule**  
**(in millions of US\$)**

| Source of funds | Program year |        |        |        |        |       |      |
|-----------------|--------------|--------|--------|--------|--------|-------|------|
|                 | Year 1       | Year 2 | Year 3 | Year 4 | Year 5 | Total | %    |
| IDB (OC)        | 2.0          | 5.0    | 4.5    | 4.5    | 3.8    | 19.86 | 57%  |
| Local           | 5.5          | 4.5    | 3.0    | 1.5    | 1.5    | 15.14 | 43%  |
| Total           | 7.5          | 9.5    | 7.5    | 6.0    | 5.3    | 35.0  | 100% |
| Percentage      | 21%          | 27%    | 21%    | 17%    | 14%    | 100%  |      |

## **F. Project monitoring and evaluation system**

- 3.24 The project monitoring and evaluation system will use the 2005-2010 indicative annual budget and the immediate action plan prepared by CICH, and especially the baseline data prepared for the environmental and socioeconomic aspects of the project. These data include measurable parameters of change for project monitoring purposes.
- 3.25 The UCP will operate the project monitoring and evaluation system, which consists of two subsystems: the project monitoring subsystem and the project evaluation subsystem. The UCP will make field visits to monitor execution of the projects based on the progress reports by the various contractors. The data compiled on these inspections and other data from the reports received on project outcomes will be used in the general monitoring system. Based on the agreements between the UCP and the Bank, the indicators to be established in the monitoring and evaluation system will be used to monitor achievement of the objectives and goals set forth in the agreed work plan (see paragraph 3.29). The progress of each component must be compared against its preestablished quantifiable objectives and goals.
- 3.26 The UCP will produce a semiannual progress report and an annual evaluation report, in addition to the reports required by the Bank and described in this chapter. Progress reports will be prepared by the UCP and must include the following information: (i) a summary of the progress achieved the previous year, compared with the immediate action plan; (ii) a review of compliance with the provisions of the loan contract and the Operating Regulations for Community Investments; (iii) a listing of activities by component and an evaluation of the activities, procurement, and the hiring of consultants for that period; and (iv) an evaluation of the performance indicators established for each component. As part of the ongoing monitoring to be carried out, the UCP will meet with the Bank by 30 April each year at the latest, beginning in the first year of project execution for project startup, to review the progress made, the goals achieved, as set forth in the logical



framework, and reach agreement on the activities to be undertaken the following year. If, as a result of these meetings, it should be determined that adjustments need to be made in the project, the CDP will take the necessary measures to correct the deficiencies identified. To this end, the UCP will report to the Bank on the corrective measures to be taken and the timetable for their execution. Based on the findings of the annual evaluation, the project execution mechanisms will be reexamined in order to make any necessary adjustments for the following year.

## **G. Reports and impact evaluation**

- 3.27 The UCP will be in charge of systematically evaluating the project and preparing the respective reports to be reviewed in the monitoring meetings. The Country Office will be responsible for project management, with support from the project team, and will conduct the periodic reviews. The UCP will submit the reports described below.
- 3.28 **Initial report (project work plan).** The executing agency will submit the work plan with the schedule of execution for each project component and activity. The plan will include the indicators, means of verification, and assumptions in each case, as set forth in the logical framework.
- 3.29 **Progress reports and administrative and financial reports.** In addition to the audited financial statements for the project, the UCP will forward the following documentation to the Bank's Country Office in Panama: semiannual progress reports on each component; a report on the status of the revolving fund and the project, and, for component III, a special report on ongoing projects and the minutes of the SCICH. The UCP will also forward the project reports and financial statements to the Ministry of Finance, the MP, and to the Country Office.
- 3.30 **Project impact evaluation.** With support from technical-cooperation operation ATN/JF-7196-PN, baseline data were compiled for the main watershed indicators with respect to social and economic development, the environment, and natural resource management. The baseline data will be used to measure the impact of the project components. Specifically, it will help answer the following questions: (i) was there any improvement in the welfare of communities in the watershed? (ii) did community cooperation and participation in developing feasible concrete ideas for investments improve in terms of both quality and quantity? (iii) are the projects and their benefits sustainable? (iv) is the necessary information being generated on the quality and quantity of water in watershed rivers and dams to support decision-making by the ACP? and (v) has the Investment Fund been established as planned with the participation of other institutions? The main indicators to be used to measure project impact will be: (i) improved access to public services; (ii) increased productivity at the farm level; (iii) new data on water quality and quantity measured by the hydrometeorological network operating in the

watershed; (iv) the number of community initiatives financed and in operation; and (v) additional increases in the Investment Fund.

#### **H. Procurement of goods and services**

- 3.31 As an exception to the procedures for the selection of consultants by competition, it is recommended that Fundación NATURA be hired directly to carry out all the procurement of goods, hiring of consulting services, and awarding of construction contracts under subcomponent III of the project, in accordance with Bank procedures. Direct hiring of Fundación NATURA meets the criteria set forth in section GS-403 of the Procurement Manual (see paragraphs 3.11 and 3.12).
- 3.32 The procurement of goods and related services, construction of works, and hiring of consulting services will be carried out according to the Bank's procurement policy. International competitive bidding (ICB) will be required for the procurement of goods and services in amounts equal to or greater than US\$350,000 and for the awarding of construction contracts for amounts equal to or greater than US\$1.5 million. International open calls for proposals will be required for the awarding of consulting contracts for amounts above US\$200,000. Procurement below these thresholds will be subject to current regulations in the country, provided they do not conflict with Bank policy.

#### **I. Auditing of the Project and Executing Agency**

- 3.33 Within 120 days after the close of each fiscal year throughout the project execution period, the borrower, through the executing agency, must submit the financial statements of the project, duly audited by an independent auditing firm acceptable to the Bank. The auditors will conduct their audit based on terms of reference previously approved by the Bank, in accordance with its policy on audits of entities and projects (documents AF-100, AF-300, and AF-400). The firm will be selected and hired in accordance with the applicable Bank procedures (document AF-200).

## **IV. VIABILITY AND RISKS**

### **A. Institutional viability**

- 4.1 The institutional viability of the project is based primarily on the independence of the UCP under the Ministry of the Presidency's (MP) National Council for Sustainable Development, which enables it to take a global, impartial approach and to relate with other State agencies and players involved in the project at a high level, as well as on the experience of the ACP, Fundación NATURA, and the FIS in component execution. The project is designed so that the UCP will act as more of a coordinator and supervisor of the various activities, which will be carried out by institutions selected through competitive bidding and will be evaluated by the beneficiaries themselves, in order to ensure the desired results and beneficiary satisfaction. In addition, a system has been designed for community participation through the Local Committees and the Watershed Community Commission, which will ensure community participation in preparing the immediate action plan. Each component also includes outreach activities for dialogue and information in the field, thereby ensuring the viability of both the property registry activities and the installation, rehabilitation, and operation of the hydrometeorological stations.
- 4.2 The MP and the ACP have experience managing projects with the Bank and are aware of the various requirements to be met and information to be provided. The ACP and recently the SCICH have also gained valuable experience through operation ATN/JF-7196-PN and the USAID project working with the communities, building their trust, and establishing a working relationship that has resulted in the organization of 31 Local Committees (19 in the western watershed region and 12 in the eastern watershed region). Moreover, the numerous watershed-level projects to be financed with the resources allocated to community investments will be prioritized by the communities, thereby avoiding any bias on the part of CICH or the MP, and will be executed by institutions with proven experience, leaving the UCP/SCICH in charge of supervision and monitoring.
- 4.3 Lastly, the project execution system for components I and II is more flexible thanks to the ACP's more expeditious administrative and financial procedures for government institutions. In addition, since component III will be executed with support from an NGO with extensive experience (Fundación NATURA) and from the FIS, through revolving funds established based on projects accorded priority and approved by the communities and the CICH and financed out of a previously approved budget, the investments will be carried out expeditiously.

### **B. Technical viability**

- 4.4 The activities under component I for the property registry and titling were designed and initiated in accordance with the PRONAT requirements and methodology. The

- steps for titling are as follows: dissemination, land survey, public display and payment arrangements, edicts, approval and signing, and titling and registration. These activities are technically feasible, as demonstrated by the fact that dissemination among agricultural and forestry development farms was launched on 23 September 2002, and initiation of notices and property lines on 26 September 2002. As of November 2004, 73% of the 197,233 hectares of agricultural and forestry development farms were registered and pretitled, together with 100% of municipal *ejidos* and 100% of rural localities. The agencies responsible for rural communities and farms are MIDA and the National Office of Agrarian Reform (DINRA), and for the *ejidos*, the Ministry of Finance and the Office of the Property Registry (DCBP), agencies with experience in such activities. Property titles will be registered in the Property Registry.
- 4.5 With regard to the activities under component II for the hydrometeorological network, the Meteorology and Hydrology Section (IPIH) of the ACP operates the most efficient modern system for hydrometeorological forecasting in Central America for purposes of the Canal, and the ESM has extensive experience in the field in station installation and operation. The technical specifications for the various types of stations to be installed and/or rehabilitated are consistent with the specifications of the World Meteorological Organization (WMO) and are appropriate for the objectives and type of stations to be installed, as well as for their location and access.
- 4.6 The basic infrastructure projects to be financed under component III are small scale and involve works or systems that are simple to build and operate. They are similar to others that have already been built in the region and in Panama by such institutions as the FIS, Fundación NATURA, the Ministry of Education (MEDUC)/World Bank, Ministry of Health/USAID, and the Ministry of Public Works (MOP). The standard designs will be based on these and their costs are reasonable for the communities in the area: septic tanks: US\$1,000-US\$5,000; latrines: US\$450-US\$650; rural road rehabilitation: US\$100,000-US\$550,000 per project; fords and footbridges: US\$20,000-US\$50,000; classrooms and school rehabilitation: US\$85,000-US\$200,000; health posts: US\$50,000-US\$90,000; and rural water supply systems: US\$10,000-US\$65,000.
- 4.7 There have been previous projects for forest recovery and agroecological management of microwatersheds, agroforestry, forest cover restoration and reforestation in national parks, urban tree planting, and so forth. Pilot projects have also been carried out for medicinal plants in tropical forests, iguana farming, conservation, consumption, and sale, use of organic fertilizer, and improved living conditions for the inhabitants of buffer zones for protected areas. Such initiatives proposed by the communities are therefore considered viable. Moreover, the socioeconomic studies conducted in the western watershed region with financing from operation ATN/JF-7196-PN identified projects now under way designed to

improve nutrition among the rural poor, train them in agricultural techniques and new activities, and conserve natural resources (soil, water, etc.).

- 4.8 The above will be carried out through sustainable farming projects for production of fish and seafood, cattle, goats, vegetables, root crops, organic fertilizer, worms, swine, chickens, and fish, and for reforestation. The proposed projects include sustainable farming, agroforestry for coffee production, and agricultural schools, development of the Cerro Gaital natural monument in a protected area in Anton, and conservation in El Cacao.

### **C. Socioeconomic viability**

- 4.9 Given the nature of the project, a complete cost-benefit analysis was not conducted. Instead, a series of typical priority projects and activities were reviewed. In view of the type of activities to be carried out under components I and II, a feasibility study was not conducted.
- 4.10 For component III, the usefulness and cost-efficiency of the activities was confirmed. The activities will generate a series of benefits that are not quantifiable but include: (i) communities that are better organized and strengthened to manage solutions to their problems; (ii) communities better prepared to reduce their vulnerability; (iii) improved instruments for natural resource management; (iv) effective instruments for management at the central and local levels; and (v) strengthened and empowered capacity for local community management.
- 4.11 Project execution will generate immediate direct benefits for the rural community development and natural resource management in the project area. These activities will result in: (i) strengthened and empowered capacity for local community management; (ii) security in land tenure; (iii) proper forest management, including an increase in reforested areas; (iv) protection of biodiversity; (v) lower production and transaction costs; (vi) increased producer income; (vii) lower production losses thanks to better marketing systems; (viii) diversification of production through a change in land use patterns and easy access to markets and credit; (ix) reduced erosion thanks to the introduction of sustainable agricultural practices; (x) reduced pollution of water sources; (xi) increased access to water supply, sewerage, and sanitation services and improved basic infrastructure; (xii) better understanding of existing water resources; and (xiii) an Investment Fund for meeting the watershed's medium-term needs.

### **D. Distributional impact and poverty targeting**

- 4.12 This operation qualifies as a poverty-targeted investment (PTI), based on geographic targeting. The population in the western watershed region is 35,727 (according to the 2000 Census) and ranks among the poorest in the country, with low quality of life indicators and an annual growth rate of 0.9% over the past

10 years. In the western region, the poverty rate is 68%, and in the eastern watershed region, 60%, above the natural average of 56% in rural areas and 29% in urban areas. Because the project targets rural areas in the western watershed region, the entire rural population will benefit directly and indirectly from it.

- 4.13 According to the latest Human Development Report, the Human Development Index (HDI) for Panama in 2000 was 0.707, placing it at a medium development level. The HDI for the municipalities located in the project area averages 0.582, which is far below the national average. The highest HDI in the area is in the northern Cocle River subwatershed (US\$497 in annual per capita income) and the lowest, in the Caño Sucio River subwatershed (US\$108/year), both of which are below the national average. The average annual per capita income in current Panamanian balboas (2000) is B\$2,377, compared with B\$547 for the region.

**E. Financial viability**

- 4.14 The government has ratified the high priority assigned to the project for development of the region and is willing to support the operation. In addition to the US\$3.5 million the ACP has already invested for various activities under components I and II, which will be recognized as previous expenditures, the ACP has also allocated US\$11.5 million in its 2004-2006 budgets to ensure continuity of the activities and contribute to the Investment Fund under component III.
- 4.15 The projects financed under component III will be only be approved if they demonstrate financial viability and require that the communities submit a maintenance plan, especially in the case of infrastructure projects. The component III projects will require an agreement signed with the beneficiaries indicating the system and plan for administration of completed projects (rates, boards of directors, working groups for physical maintenance, etc.). The amount of local counterpart funding to be provided by the communities for this type of project will be higher than that required for agricultural projects, with a view to motivating the communities to discharge these responsibilities.

**F. Environmental and social viability**

- 4.16 Given its design, on balance the proposed operation will have a positive environmental and social impact. The activities to be carried out under components II and III, mainly small-scale works for basic services with little environmental impact, will be subject to environmental protection procedures, to be stipulated in the Operation Regulations. The criteria set forth in the Operating Regulations will ensure the technical, financial, and environmental viability of the projects and that the necessary measures are taken to mitigate any potential adverse impact. With regard to the project's social, ethnic, and cultural impact, a participatory approach and community outreach are being emphasized as a key factor in decision-making for setting priorities and selecting activities, ensuring consistency between the

projects and community features. The activities assigned priority by the watershed communities will be carried out through the Local Committees, which will prepare their own annual community action plans, and the Watershed Community Commission (CCC), which will be in charge of preparing its immediate action plan for submittal to the CICH Expanded Standing Technical Committee (CTPA). In an effort to improve community quality of life and income level, the project will support priority investments in human capital and community self-management. The consensus-building process for preparation of the various investment projects in the watershed will be based on a methodology for outreach and direct interviewing in the field with the various stakeholders and local authorities.

#### **G. Project benefits**

- 4.17 The project will generate direct and indirect benefits in the short term throughout the watershed and in particular in the western watershed region. In the western and eastern watershed regions, organization of local communities will be enhanced through their increased capacity to access sources of funding, which will help them meet their most pressing basic needs. The project will also guarantee security in land tenure and provide a source of initial financing for those needs. It will greatly improve knowledge of the potential water resources in the region, thereby helping to meet basic needs for water supply and sanitation in the communities more efficiently. The existence of key watershed management tools, such as a geographic information system and Indicative Plan for Functional Land Management will facilitate monitoring. Moreover, the project will help establish an Investment Fund, which, upon project completion, will yield resources that will be used for sustainable financing of community demand-driven investments in the watershed.

#### **H. Project risks**

- 4.18 The main risks inherent in the proposed project are the following: (i) there may be low capacity in the communities for formulating projects and lack of community organization, especially in the western watershed region; this risk will be mitigated by providing direct support to the communities in the area of project preparation, and the Local Committees have begun to be integrated and community demand-driven activities have started, such as the property registry and titling; and (ii) the sector institutions operating in the watershed may not cooperate in supporting the local investments requested by the communities. To mitigate this risk, the CICH Secretariat will submit the Operating Regulations for Community Investments to the Standing Technical Committee of the CICH for its acceptance, to ensure that all the institutions with responsibilities in the watershed cooperate and provide support.

**PRIORITY ACTIVITIES IN THE PANAMA CANAL WATERSHED**  
**PN-0139**  
**LOGICAL FRAMEWORK**

| Narrative Summary   | Indicators   | Means of Verification  | Assumptions   |
|---|--|--|---|
| <p><b>Goal:</b><br/>Help create the conditions for sustainable development of the watershed with broad-based community participation.</p> <p><b>Purpose:</b><br/>Meet priority community demand in order to strengthen the dialogue between the government and local communities and ensure coordination with other government agencies in the management of watershed development.</p>   | <ul style="list-style-type: none"> <li>• Increase in beneficiary welfare</li> <li>• Strategic partnerships between communities and the government strengthened and consolidated</li> <li>• Properties totaling 213,000 hectares registered and titles to them granted</li> <li>• Hydrometeorological network established throughout watershed</li> <li>• Financial instrument established, community investments and Investment Fund operational.</li> </ul> | <ul style="list-style-type: none"> <li>• Increase in beneficiary income and further increase in farm-level productivity</li> <li>• Working round tables at the subwatershed level and field offices</li> <li>• Reports by Ministry of Agricultural Development, National Office of Agrarian Reform, and the MP</li> <li>• Hydrometeorological stations operational and producing data</li> <li>• Community projects submitted and under way</li> </ul> | <ul style="list-style-type: none"> <li>• The agencies have the political will to work together in the watershed.</li> <li>• The CICH has the capacity to spearhead the process.</li> <li>• The communities are willing to support the MP</li> <li>• The property registry and titling activities are support by the PRONAT agencies.</li> </ul> |
| <b>Project components:</b>  |  |  |   |
| <p><b>1. Property registry and titling</b></p> <p><b>Goal:</b><br/>Ensure security in land tenure for residents of the western watershed region.</p> <p><b>Purpose:</b><br/>Establish a property registry for the entire western watershed region for sustainable development and expanded, improved environmental management.</p>  | <ul style="list-style-type: none"> <li>• Delivery of 14,000 property titles and regularization of existing titles</li> <li>• Delivery of 2,000 titles to properties located in rural communities</li> <li>• Delivery of approximately 1,500 titles in nine <i>ejidos</i></li> <li>• Supervision of 11,000 forest use statements</li> </ul>   | <ul style="list-style-type: none"> <li>• MP annual reports</li> <li>• Midterm evaluation reports</li> <li>• Project monitoring and evaluation system</li> <li>• Contractor reports</li> <li>• Property Registry reports</li> </ul>   | <ul style="list-style-type: none"> <li>• The ACP/MIDA is willing to maintain trained staff in the watershed.</li> <li>• The communities accept and participate in the working round tables.</li> <li>• The processes are adequately supervised and monitored.</li> </ul>  |
| <p><b>2. Hydrometeorological network and special studies</b></p> <p><b>Goal:</b><br/>Ensure evaluation of water resources in the watershed by installing the necessary stations and establishing a hydrometeorological network.</p> <p><b>Purpose:</b><br/>Increase accuracy in the data on the quantity, quality, seasonal and geographic distribution, and potential for development of water resources and the capacity of water supply to meet current and future demand.</p> | <ul style="list-style-type: none"> <li>• installation of six hydrometeorological stations;</li> <li>• rehabilitation of four existing hydrometeorological stations;</li> <li>• establishment of a network of five water quality stations</li> <li>• installation of 14 meteorological stations</li> <li>• studies: <ul style="list-style-type: none"> <li>&gt; Projected overall demand for water and water prices</li> </ul> </li> </ul>                    | <ul style="list-style-type: none"> <li>• MP annual reports</li> <li>• Midterm evaluation reports</li> <li>• Monitoring and evaluation system</li> <li>• Reports on the management tools</li> </ul>   | <ul style="list-style-type: none"> <li>• The communities commit to supporting data compilation in the field.</li> <li>• MP staff are assigned to field work.</li> <li>• The various consulting services are successfully hired.</li> </ul>  |



| Narrative Summary   | Indicators   | Means of Verification  | Assumptions   |
|---|--|--|---|
| <p>Prepare key management tools to support decision-making and strengthen watershed monitoring.</p>   | <p>&gt; Geographic Information Systems (GIS) and Indicative Plan for Functional Land Management (PIOTF) for monitoring the watershed</p>   |  |   |
| <p><b>3. Community initiatives in the watershed</b></p> <p><b>Consolidation of the dialogue</b></p> <p><b>Goal:</b><br/>Strengthen and consolidate strategic partnerships between stakeholders in the western and eastern watershed regions</p> <p><b>Purpose:</b><br/>Develop and consolidate channels of communication to expand and strengthen current government outreach to the communities and other stakeholders in the watershed, especially the western region.</p> <p><b>Financing facilities for community initiatives</b></p> <p><b>Goal:</b><br/>Establish a management model to respond to the demand assigned priority by the watershed communities.</p> <p><b>Purpose:</b><br/>Establish financing instrument and grant investment resources to ensure effective, comprehensive responses to the demand assigned priority by the watershed communities.</p> | <p><b>Consolidation of the dialogue</b></p> <ul style="list-style-type: none"> <li>• 20 working round tables at the subwatershed level</li> <li>• 40 training workshops on topics related to preparation of initiatives and projects</li> <li>• Six coordination centers duly equipped</li> <li>• at least 20 investment projects prepared by the communities for prospective financing by the investment fund.</li> </ul> <p><b>Community investments:</b></p> <ul style="list-style-type: none"> <li>• at least 40 preinvestment initiatives designed to expedite and provide an incentive for access to existing sources of financing for investment</li> <li>• at least 100 investment initiatives in eligible areas and sectors as established in the Operating Regulations</li> </ul> <p><b>Investment Fund:</b></p> <ul style="list-style-type: none"> <li>• Investment Fund established and structured based on seed capital</li> <li>• Operating Regulations to govern Investment Fund and administrative system for fund operation prepared</li> <li>• Meetings and workshops held with prospective donors and official startup of fund</li> </ul> | <ul style="list-style-type: none"> <li>• Minutes of Local Committee and CCC meetings</li> <li>• MP, FIS and Fundación NATURA annual reports</li> <li>• Midterm evaluation</li> <li>• Field office reports</li> <li>• Number of projects submitted to sources of financing</li> <li>• Number of projects prepared using preinvestment resources</li> <li>• Operating Regulations for Community Investments established</li> <li>• Number of investment projects approved</li> <li>• Project performance evaluation</li> <li>• FIS and Fundación NATURA reports</li> <li>• Investment Fund established</li> <li>• Operating Regulations for Investment Fund designed</li> <li>• Outcome of donor meetings</li> <li>• New donors contributing to Investment Fund</li> </ul> | <ul style="list-style-type: none"> <li>• The CICH has the political will to support operation of the Investment Fund.</li> <li>• The Investment Fund monitoring and evaluation systems are operational.</li> <li>• The Investment Fund administrator has the necessary capacity.</li> <li>• Donors are willing to support Investment Fund creation and contribute to it.</li> <li>• The Investment Fund is successfully promoted and launched.</li> </ul> |

## PRIORITY ACTIVITIES IN THE PANAMA CANAL WATERSHED

**(PN-0139)**

## PROCUREMENT PLAN

[illegible]

## **INFORMATION AVAILABLE IN THE RE2 TECHNICAL FILES**

### **Preparation:**

Report on the socioeconomic study of the western watershed region

Report on the environmental and cultural study of the western watershed region

Aide-mémoires on Round Tables and Second Rural Farmworker Meeting – ACP-CICH

Report analyzing development scenarios and the Indicative Plan for Functional Land Management for the western watershed region, University of Panama, The Louis Berger Group, Inc.

### **Execution:**

Operating Regulations for Community Investments under component III

CICH 2005-2010 immediate action plan

PROPOSED RESOLUTION DE-\_\_\_/05

Panama. Loan \_\_\_\_/OC-PN to the Republic of Panama  
Priority Activities in the Panama Canal Watershed

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 priority activities in the Panama Canal watershed program. Such financing will be for an amount of up to US\$19,860,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.