

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **REPUBLIC OF PANAMA**

### **RURAL AND INDIGENOUS WATER AND SANITATION PROGRAM IN PANAMA**

**(PN-G1003)**

#### **GRANT PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Annual work plan (AWP) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36811380">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36811380</a>
2.	Monitoring and evaluation plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876590">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876590</a>
3.	Full procurement plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876589">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876589</a>
4.	Environmental and social management report (ESMR) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876586">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876586</a>
<b>OPTIONAL</b>	
1.	Technical options and design <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876585">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876585</a>
2.	Analysis of project costs and socioeconomic viability <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876584">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876584</a>
3.	Financial analysis <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876583">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876583</a>
4.	Operating Regulations <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876582">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876582</a>
5.	Operational guidelines for social/community intervention <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876594">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876594</a>
6.	ICAS institutional capacity assessment <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36813453">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36813453</a>
7.	Environmental classification and safeguards <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876591">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36876591</a>

## ABBREVIATIONS

AECID	Agencia Española de Cooperación Internacional para el Desarrollo [Spanish Agency for International Development Cooperation]
ANAM	Autoridad Nacional del Ambiente [National Environmental Authority]
AO&M	Administration, operation, and maintenance
ASEP	Autoridad Nacional de los Servicios Públicos [National Public Utility Authority]
AWP	Annual work plan
CCAS	Comisión Comarcal de Agua y Saneamiento [Comarca Water and Sanitation Commission]
CONADES	Consejo Nacional de Desarrollo Sostenible [National Sustainable Development Council]
DAPOS	Departamentos de Agua Potable y Obras Sanitarias [Water and Sanitation Works Departments]
DISAPAS	Dirección del Subsector del Agua Potable y Alcantarillado Sanitario [Directorate for the Water and Sanitary Sewer Subsector]
ESMP	Environmental and social management plan
FCAS	Fondo Español de Cooperación para Agua y Saneamiento [Spanish Cooperation Fund for Water and Sanitation]
GCI-9	Ninth General Increase in the Resources of the Inter-American Development Bank
ICAS	Institutional Capacity Assessment System
IDAAN	Instituto de Acueductos y Alcantarillados Nacionales [National Water and Sewerage Institute]
JAAR	Junta Administradora de Acueductos Rurales [Rural Water Management Board]
MEF	Ministry of Economy and Finance
MINSA	Ministry of Health
O&M	Operation and maintenance
OTC	Oficina Técnica de Cooperación [Technical Office for Cooperation]
PAHO	Pan American Health Organization
PASAP	Panama Water Supply and Sanitation in Low-Income Communities Project
SEPA	Sistema de Ejecución de Planes de Adquisiciones [Procurement Plan Execution System]
SFW	Fondo Español de Cooperación para Agua y Saneamiento en América Latina y el Caribe [Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean]
SIASAR	Sistema de Información de Agua y Saneamiento Rural [Rural Water and Sanitation Information System]
UNDP	United Nations Development Programme

## PROJECT SUMMARY

### REPUBLIC OF PANAMA RURAL AND INDIGENOUS WATER AND SANITATION PROGRAM IN PANAMA (PN-G1003)

Financial Terms and Conditions				
<b>Beneficiary:</b> Republic of Panama			<b>Source of financing:</b>	<b>SFW</b>
			<b>Amortization period:</b>	N/A
<b>Executing agency:</b> Ministry of Health (MINSA)			<b>Grace period:</b>	N/A
			<b>Disbursement period:</b>	4 years
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	N/A
IDB / Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW)	7.5 million	50%	<b>Inspection and supervision fee:</b>	N/A
Local	7.5 million	50%	<b>Credit fee:</b>	N/A
Total	<b>15 million</b>	<b>100%</b>	<b>Currency:</b>	United States dollars
Project at a Glance				
<p><b>Objective and description.</b> The program's general objective is to increase access to clean drinking water and sanitation services in rural and indigenous communities located in the East Panama region, the province of Darién, and the comarca of Guna Yala. The specific objectives are to: (i) expand and/or build new water systems and sanitation solutions; (ii) contribute to the sustainability of water and sanitation systems through community development and strengthening of the Juntas Administradoras de Acueductos Rurales [Rural Water Management Boards] (JAARs) and Comisiones Comarcales de Agua y Saneamiento [Comarca Water and Sanitation Commissions] (CCASs); and (iii) contribute to strengthening the Ministry of Health (MINSA), at the central level and at the regional health offices located in the program target area, in the ministry's role as JAAR investor and technical and social advisor on rural water and sanitation issues. The program is expected to benefit 3,015 indigenous and 518 nonindigenous households through new drinking water connections and new sanitation solutions.</p>				
<p><b>Conditions precedent to the first disbursement:</b> (i) MINSA will contract or appoint, through the Directorate for the Water and Sanitary Sewer Subsector (DISAPAS), the following key personnel for program execution: (a) a program coordinator; (b) a health/social issues educator; (c) a civil or sanitation engineer; (d) a technical specialist in environmental issues; (e) an administration and finance specialist; (f) a specialist in indigenous issues; (g) a planning and monitoring specialist; and (h) a procurement specialist (see paragraph 3.2); and (ii) MINSA will approve the program Operating Regulations with the Bank's prior no objection, including the program's environmental and social management arrangements (see paragraph 3.8).</p>				
<p><b>Other special execution conditions:</b> (i) within one year after the program has been declared eligible, the Water and Sanitation Works Departments (DAPOSS) will be up and running at the MINSA regional health offices located in the program target area (see paragraph 3.4); and (ii) the contract to be signed by MINSA and the fiduciary agent will be submitted for the Bank's no objection within 180 days after the effective date of the contract (see paragraph 3.11).</p>				
<b>Exceptions to Bank policies:</b> None.				
<b>Project consistent with country strategy:</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
<b>Project qualifies as:</b> SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input type="checkbox"/> Geographic <input checked="" type="checkbox"/> Headcount <input type="checkbox"/>				
<b>Procurement:</b> Program procurements will be conducted in accordance with Bank policies (documents GN-2349-9 and GN-2350-9).				

\* The financing is a grant from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

- 1.1 **Institutional framework.** Panama established an institutional and regulatory framework for the delivery of water and sanitation services in 1997 by enacting a law that clearly separates roles and responsibilities as follows: (i) apex authority and policy formulation, to the Ministry of Health (MINSA); (ii) regulation, to the National Public Utility Authority (ASEP); and (iii) service delivery in towns of more than 1,500 inhabitants, to the National Water and Sewerage Institute (IDAAN), and in towns of less than 1,500 inhabitants, to the JAARs, assisted by MINSA, acting through the Directorate for the Water and Sanitary Sewer Subsector (DISAPAS), in its capacity as executing agency for rural investment and technical/social advisor to the JAARs. Other actors, chiefly the Ministry of Economy and Finance (MEF), the National Environmental Authority (ANAM), and the National Sustainable Development Council (CONADES), also play a role in the sector.
- 1.2 **Sector indicators.** According to the Eleventh National Population Census and Seventh National Housing Census in 2010, Panama has a population of 3,405,813, of whom 2,216,559 (65.1%) live in urban areas, and 1,189,254 (34.9%) in rural areas. In 2010, coverage of clean drinking water services was an estimated 92.9% of the population, with rates of 98.2% in the urban sector and 78.1% in the rural sector. Sanitation coverage at the national level is 94.5%, as follows: 33.1% of the population is connected to a sewer system, 30% to a septic tank, and 31.4% to a latrine. In urban areas there is 98.9% sanitation coverage, compared to 85.2% in rural areas. These data show the disparities between urban and rural areas in terms of access to water and sanitation services. This is reflected in lower water coverage rates in provinces such as Bocas del Toro (75.1%) or Darién (72.8%), which are characterized by high rural population levels.<sup>1</sup>
- 1.3 **Services in rural areas.** MINSA, acting through DISAPAS, is the institution responsible for executing water and sanitation investments in these areas, as well as for providing technical and social assistance to the country's 3,742 JAARs, which in turn provide water service to the rural population. The JAARs are created in the stage preceding construction of the works and receive training from MINSA on administration, operation, and maintenance (AO&M) of the systems. MINSA does not have a budget line item specifically allocated to providing technical and social assistance to the JAARs. For this task, the DISAPAS has only five civil engineers, one hydraulic engineer, four graduates in sanitation technologies, and eleven construction and sanitation technicians at the national; these are not enough staff to provide assistance to the JAARs. In addition, monthly user charges in rural areas average US\$2 for gravity systems and US\$3 for pumping systems. According to DISAPAS estimates, these amounts cover around 70% of AO&M costs. In gravity systems, the rates cover chlorination and some minor spare parts, and in pumping

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<sup>1</sup> Eleventh National Population Census and Seventh National Housing Census, INEC, 2010.

systems, electricity and some minor maintenance costs. This helps to explain why only 52.9% of the community systems operated by the JAARs provide 24-hour service.<sup>2</sup> Although no statistics are available, it is believed that a high percentage of rural water systems provide water that fails to meet potability standards. MINSA is responsible for monitoring this, but does so sporadically and not very systematically due to the lack of specific budget line items or appropriate equipment. In terms of sanitation, the census data show that a large majority of rural households dispose of excreta via latrines (58.4%) or eliminate wastewater via a septic tank (25%).<sup>3</sup> According to the information gathered for the sample projects, these solutions are generally characterized by inadequate sanitary conditions and poor maintenance. In terms of poverty levels, the latest Living Standards Survey data show that 50.7% of the rural population lives in poverty, and 22.2% in extreme poverty; these figures are several percentage points higher than the national average, which is 32.7% for the poverty level and 14.4% for the extreme poverty level.<sup>4</sup>

#### 1.4 Services in indigenous areas.

The population in the country's comarcas and indigenous areas is estimated at 209,300 (6.1% of the national total), distributed among the provinces of Darién (comarca Guna de Wargandí and the Emberá Wounaan districts of Cémaco and Sambú), the East Panama region (comarca Guna de Madungandí and the district of Chimán), and the comarcas Guna Yala and Ngäbe Büglé. In these areas, coverage of clean drinking water is 43.6%, and sanitation coverage is 36.5%, well below the national averages for rural areas.<sup>5</sup> These areas also trail the national average in extreme poverty. According to 2010 data of the United Nations Development Programme (UNDP), the extreme poverty rate in Panama is 14.2%. Yet in indigenous areas extreme poverty rates range from 50% to 90%, reflecting this population segment's worse relative position (comarca Ngäbe Büglé: 91%; comarca Guna Yala: 64.6%; and comarca Emberá: 53.6%).<sup>6</sup> The country's indigenous areas have traditional governance structures, such as the Comarca Congresses and their Traditional Authorities, which exercise autonomy and self-management in each indigenous comarca, in conjunction with government entities. Each Comarca Congress has a Comarca Water and Sanitation Commission (CCAS), representing the indigenous

**Table I-1. Water and sanitation coverage**

AREA	SERVICE	
	Water	Sanitation
Country total	92.9%	94.5%
Urban areas	98.2%	98.9%
Rural areas	78.1%	85.2%
Indigenous areas	43.6%	36.5%
Intervention area	58.8%	24.2%

Source: 2010 census.

<sup>2</sup> Eleventh National Population Census and Seventh National Housing Census, INEC, 2010

<sup>3</sup> Eleventh National Population Census and Seventh National Housing Census, INEC, 2010.

<sup>4</sup> Living Standards Survey, MEF, 2008.

<sup>5</sup> Eleventh National Population Census and Seventh National Housing Census, INEC, 2010.

<sup>6</sup> Panama Human Development Atlas, UNDP, 2010.

peoples in terms of planning interventions and promoting water and sanitation programs conducted by MINSA.

- 1.5 **Services in the program target area.** The program target area, with a total population of 52,638, is comprised of: (i) the province of Darién (comarca Guna de Wargandí and the Emberá Wounaan districts of Cémaco and Sambú; (ii) the East Panama region (the district of Chimán and comarca Guna de Madugandí); and (iii) comarca Guna Yala. Water coverage is 58.8% in these areas, while sanitation coverage, mainly latrines, is 24.2%.<sup>7</sup>
- 1.6 **Program background.** In 2008, with World Bank financing, MINSA began implementation of the Panama Water Supply and Sanitation in Low-income Communities Project (PASAP) with the objective of increasing access to water and sanitation services in the country's rural and indigenous areas. As part of the intervention arrangements, MINSA developed a new methodology for working with the indigenous peoples, based on: (i) recognition and respect for the Comarca Congresses as legitimate interlocutors; and (ii) strengthening of the technical and institutional capabilities of the CCASs to participate in project design, implementation, monitoring, and evaluation activities.
- 1.7 In 2009, with funding from the UNDP/Spain Millennium Development Goals Achievement Fund and in collaboration with the Pan American Health Organization (PAHO), the United Nations Children's Fund (UNICEF), and the International Labour Organisation (ILO), MINSA began implementation of a program known as "Gobernanza," to ensure access to water and sanitation services for the most excluded populations in the Ngäbe Büglé comarca. Using an intercultural approach, the program has encouraged community participation and training of community members to build their own water supply systems.
- 1.8 In addition, the objectives of the Unified Program for Sustainable Development of the Water and Sanitation Sector in the Provinces, being executed by CONADES with IDB financing, include increasing water and sanitation coverage in the provinces of Chiriquí, Bocas del Toro, Veraguas, Herrera, Los Santos, Coclé, and Colón. In this program, MINSA acts as coexecuting agency for the rural water and sanitation subcomponent, which calls for rehabilitation and construction of new water and sanitation systems in rural areas, along with social-sector activities to provide technical and administrative training for the program's beneficiary JAARs.
- 1.9 **Lessons learned.** The Bank's experience in Panama's rural sector and the experience of the PASAP and Gobernanza programs, both in the final stage of execution, indicate that the main problems impeding better water and sanitation service delivery in rural and indigenous areas are: (i) MINSA weaknesses in project planning and internal control (see [ICAS](#)), which limits program financial and budgetary management; (ii) insufficient technical and administrative capacity of the JAARs in providing services; (iii) low sustainability of water and sanitation services; (iv) implementation of inappropriate technology options; and

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<sup>7</sup> Eleventh National Population Census and Seventh National Housing Census, INEC, 2010.



(iv) insufficient beneficiary involvement in the project cycle, both at the community level and at the level of the local and traditional authorities.<sup>8</sup>

- 1.10 **Program design.** This is a multiple works program, and its design and execution will take into account lessons learned (technical and social) from the programs implemented by MINSA in rural and indigenous areas, specifically the PASAP and Gobernanza programs. One of the lessons being the importance of participation by the community and by local and traditional authorities, the program calls for strengthening and training a total of 44 JAARs in AO&M and three CCASs in conflict resolution and project management. Another such lesson being the importance of creating a strategy for the post-construction stage, the program will support structuring and strengthening of Water and Sanitation Works Departments (DAPOSs) at the regional MINSA offices located in the intervention areas (a total of three). These departments will, among their other duties, be responsible for providing technical and social assistance to the JAARs. Strengthening the JAARs and creating DAPOSs will help to put in place user charges that cover AO&M costs, which is a key to sustainability. The program will also encourage beneficiary participation at all stages of the project cycle, mindful of cultural and gender issues, and the adoption of appropriate technologies.
- 1.11 **The country's strategy.** Panama's 2009-2014 government plan identifies water and sanitation as a priority sector and sets the targets of increasing coverage of clean drinking water at the national level to 90% by 2014<sup>9</sup> and increasing sanitary sewer coverage to 76%.<sup>10</sup> Solving the problems of access and quality in water and sanitation services, particularly for low-income populations, is also a priority for the Government of Panama.
- 1.12 **The Bank's strategy.** The program is consistent with the provisions of the Bank's current country strategy with Panama (2010-2014), contributing to strategic objective C.1, to "increase coverage and quality, and improve the management of water and sanitation services, in the country's other provinces." It is also included in the 2012 Operational Program Report (document GN-2661). In addition, this program is consistent with the objectives of the Bank's Water and Sanitation Initiative under the 3,000 Rural Communities program. Furthermore, it is consistent with the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9), contributing both to the regional objective of "poverty reduction and equity enhancement" by increasing basic services coverage in regions where poverty levels exceed the national average, and to the lending program for climate change, sustainable energy, and environmental sustainability initiatives by financing community development works and actions aimed at preserving and managing water effectively as a natural resource. The operation helps to improve

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<sup>8</sup> Lockwood & Smits, "Lessons for rural water supply (a multi-country synthesis)," IRC, The Hague, 2011. For the case of Panama, see "Informe de evaluación intermedia del programa Gobernanza" [Gobernanza program midterm review report], 2011.

<sup>9</sup> The 90% target is based on the 2000 census.

<sup>10</sup> Ministry of Economy and Finance. 2010-2014 Strategic Government Plan.

access to water and sanitation services and promote the financial sustainability and administrative and operational efficiency of JAARs, which are responsible for providing these services, through integrated interventions in water and sanitation. It also promotes actions to strengthen MINSA in its role as investor and technical advisor to the JAARs, thus contributing to better water and sanitation service delivery in rural areas. In this context, the operation is consistent with the Bank's policies on Public Utilities (Operational Policy OP-708) and Basic Environmental Sanitation (Operational Policy OP-745). The program complements the Bank's ongoing efforts with CONADES (1982/OC-PN, 1768/OC-PN), through MINSA as coexecuting agency, aimed at increasing water and sanitation coverage in rural areas. It also complements the sector efforts under the following programs: (i) Panama City and Bay Sanitation Project, Phase I (1719/OC-PN, 1719/OC-PN-1); (ii) Unified Program for Sustainable Development of the Water and Sanitation Sector in the Provinces (1982/OC-PN, 1768/OC-PN); and (iii) IDAAN Water and Sanitation Multiphase Investment Program, Phase I (2367/OC-PN), as well as the technical cooperation operations related to: (i) prioritization of IDAAN water and sanitation investments in small and medium-sized cities (ATN/OC-11959-PN); (ii) support for the IDAAN modernization component (ATN/OC-12306-PN); and (iii) strengthening of energy efficiency at IDAAN (PN-T1093), now in preparation.

- 1.13 **Strategy of the Spanish cooperation agency.** Spain's 2009-2012 master plan for international cooperation lists the following horizontal development priorities: (i) social inclusion and poverty reduction; (ii) promotion of human rights and democratic governance; (iii) women in development; (iv) environmental sustainability; and (v) respect for cultural diversity. In addition, it identifies promoting greater access to water and sanitation as one of its 12 sector priorities, and "promoting the human right to water and improving and expanding coverage and access to clean drinking water and basic sanitation" as a general sector objective. The strategic objective of Spanish cooperation work in Panama is to "contribute to poverty reduction, guaranteeing equity and access to public services, as well as respect for human and civil rights, for the country's main vulnerable groups." The Partnership Framework for the Sixth Joint Spanish-Panamanian Cooperation Commission, in effect since July 2011, expresses readiness to support the country's strategy in achieving development goals through the proposed program and other efforts. This operation will be complemented by a US\$15 million bilateral program funded with resources from the Spanish Cooperation Fund for Water and Sanitation (FCAS), to be managed by MINSA with the direct supervision of the Spanish Agency for International Development Cooperation (AECID). These resources will be used to finance interventions similar to those under this program in another geographic area of Panama (comarca Ngäbe Buglé). It was agreed with the Government of Panama, through MINSA and the MEF, that the Bank and AECID would work in tandem in the process of formulating the two programs (PN-G1003 and the bilateral program), which are to have the same executing agency (DISAPAS) and fiduciary procedures (the Bank's).

**B. Objectives, components, and cost**

- 1.14 **Objectives.** The program's general objective is to increase access to clean drinking water and sanitation services in rural and indigenous communities located in the East Panama region, the province of Darién, and the comarca of Guna Yala. The specific objectives are to: (i) expand and/or build new water systems and sanitation solutions; (ii) contribute to the sustainability of water and sanitation systems through community development and strengthening of the Juntas Administradoras de Acueductos Rurales [Rural Water Management Boards] (JAARs) and Comisiones Comarcales de Agua y Saneamiento [Comarca Water and Sanitation Commissions] (CCASs); and (iii) contribute to strengthening the Ministry of Health (MINSA), at the central level and at the regional health offices located in the program target area, in the ministry's role as JAAR investor and technical and social advisor on rural water and sanitation issues. To achieve these objectives, the program is structured in three components.
- 1.15 **Component I. Comprehensive rural water and sanitation projects.** This component will finance studies and designs, construction of new drinking water systems and expansion of existing systems, construction of sanitation solutions, and inspection and supervision of works. In addition, interventions will be conducted when appropriate to protect water sources. Paragraph 3.9 lists the project eligibility and prioritization criteria.
- 1.16 **Component II. Community development and strengthening of JAARs.** This component calls for technical and social assistance to the JAARs with a view to strengthening their organizational structure and improving their ability to operate, manage, and maintain rural water and sanitation systems. To this end, in addition to support for the management efforts of the CCASs, the JAARs will receive training with an intercultural and gender focus on issues such as systems operation and maintenance (O&M), business management, water quality monitoring and surveillance, environmental and health education, protection of water sources, and solid waste management.
- 1.17 **Component III: Institutional strengthening of MINSA.** This component will strengthen MINSA in its role as JAAR investor and technical and social advisor with a view to ensuring better delivery of water and sanitation services in the rural areas. This component will finance: strengthening the operational and administrative capacity of DISAPAS at the central level; creating and strengthening DAPOSs at the regional level; designing and implementing a dissemination and communications plan; and developing a single georeferenced information system for the JAARs.
- 1.18 **Key results indicators.** The most relevant indicators and their expected outcomes are shown in Table I-2. The program is expected to benefit 3,015 indigenous households and 518 nonindigenous households through new drinking water connections and new sanitation solutions. Water coverage at the national level is projected to increase from 92.9% to 93.3%, and sanitation coverage from 94.5% to

94.9%, while coverage in the program target area is projected to increase from 58.8% to 99% and from 24.2% to 65%, respectively.

**Table I-2. Key results indicators**

Indicators	Year 1	Year 2	Year 3	Year 4	Goal
New drinking water systems built		23	21		44
New individual sanitation solutions built		2,285	1,248		3,533
Indigenous households with new access to drinking water		2,139	876		3,015
Indigenous households with new sanitation solution		2,139	876		3,015
Nonindigenous households with new access to drinking water		146	372		518
Nonindigenous households with new sanitation solution		146	372		518

## II. FINANCING STRUCTURE AND RISKS

### A. Financing instruments

- 2.1 **Financing structure.** The beneficiary will be the Republic of Panama, acting through the Ministry of Economy and Finance (MEF). The executing agency will be the Ministry of Health (MINSA), acting through the Directorate for the Water and Sanitary Sewer Subsector (DISAPAS). The total program cost is US\$15 million, of which US\$7.5 million will be a grant from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW), and US\$7.5 million will be local counterpart resources. The counterpart contribution from the Government of Panama meets the requirements of the SFW technical framework and operating regulations (document OP-207).

**Table II-1. Program costs and sources of financing**

Categories	Total	IDB/SFW	Local	%
<b>Program total</b>	<b>15,000,000</b>	<b>7,500,000</b>	<b>7,500,000</b>	<b>100</b>
1. Component I: Comprehensive rural water and sanitation projects	12,133,000	6,345,890	5,787,110	80.89
2. Component II: Community development and strengthening of JAARs and CCASs	613,450	442,010	171,440	4.09
3. Component III: Institutional strengthening of MINSA	1,327,525	508,100	819,425	8.85
4. Administration, monitoring and evaluation, audit	926,025	204,000	722,025	6.17
4.1 Administration	716,025	39,000	677,025	
4.2 Monitoring and evaluation	135,000	90,000	45,000	
4.3 Audit	75,000	75,000	0	

- 2.2 **Disbursement schedule.** The program is expected to have an execution period of four years, with the following disbursement schedule:

**Table II-2**

Source	Year 1 <sup>11</sup>	Year 2	Year 3	Year 4	Total	%
IDB	-	3,460,449	3,245,311	794,240	7,500,000	50
Local	-	2,939,593	3,360,787	1,199,620	7,500,000	50
<b>Total</b>	-	<b>6,400,042</b>	<b>6,606,098</b>	<b>1,993,860</b>	<b>15,000,000</b>	<b>100</b>
%	<b>0</b>	42.7	44.0	13.3	100.0	

**B. Environmental and social safeguard risks**

- 2.3 The program is expected to have a positive environmental and social impact insofar as it will enhance environmental quality in the program target areas. The operation has been classified as category “B” under the Environment and Safeguards Compliance Policy (Operational Policy OP-703), due to localized, short-term risks arising from the construction of civil works such as noise, dust, solid and liquid waste, and the work-related accidents, for which effective mitigation measures are available. As part of the preparation process for the operation, a social impact study and an environmental and social analysis (ESA) were performed and an environmental and social management plan (ESMP) was prepared as required by Operational Policy OP-703 for category “B” operations.
- 2.4 The majority of the program beneficiaries are rural communities in indigenous comarcas. Accordingly, project viability will be triggered upon completion of the safeguard actions associated with Operational Policy OP-703 and the Indigenous Peoples Policy (Operational Policy OP-765), as well as relevant Panamanian laws and regulations. The focus on gender equality in development will be built into all program stages and actions as provided in the Policy on Gender Equality (document OP-270).
- 2.5 **Mitigation measures.** The corresponding environmental management measures, which are well-known and easily applied, form an integral part of the ESMP, which will in turn be included in the Operating Regulations, and are summarized in the environmental and social management report (ESMR) (see [electronic link](#)). To mitigate temporary impacts during the construction stage and diminish risks, the project budgets will include the necessary resources to implement the prevention and mitigation works provided in the design. In addition, DISAPAS will be institutionally strengthened with an environmental technical specialist and a health educator/specialist in social issues, to supervise compliance with these measures in accordance with the Bank’s operational policies and Panamanian laws and regulations.

<sup>11</sup> For disbursement planning purposes, the last quarter of 2012 is regarded as program year 1, during which no disbursements are planned.

### **C. Fiduciary risks**

- 2.6 According to an ICAS institutional capacity assessment, the program's fiduciary risk is medium in procurement and financial management (see Annex III). Consequently, the following mitigating measures will be taken: (i) training of staff in Bank policies; (ii) appointment or contracting of an administrative/financial specialist and a procurement specialist for the program; (iii) contracting of a project planning and monitoring specialist; (iv) training in Bank policies and procurement processes; (v) structuring of the operating regulations with an effective process flow for procurement and financial control; (vi) inclusion of the Procurement Plan Execution System (SEPA) in the program information system; and (vii) preparation of harmonized documents for national competitive bidding.

### **D. Other risks**

- 2.7 Other risks identified for the operation are: (i) counterpart contribution risk, for which inclusion of the counterpart contribution for the first year of the program in the 2013 MINSA budget has been guaranteed; and (ii) sustainability risk, for which a specific program will be implemented to strengthen the JAARs, giving them tools to enhance their operational and financial management capacity. In addition, water and sanitation works departments (DAPOSs) will be created at MINSA's regional health offices to provide technical and social assistance to the JAARs during the post-construction stage. For this purpose, they will be given the necessary equipment and the training to deploy the Rural Water and Sanitation Information System (SIASAR), enabling real-time monitoring of systems built with program resources.<sup>12</sup>

### **E. Viability analysis**

- 2.8 **Technical viability.** The technical viability analysis took the form of the study of dimensioning, costs, and engineering practices on a sample of 23 water and sanitation projects currently in the design phase, including new systems and the replacement of existing systems. The solutions to be executed are gravity-fed water supply systems, which constitute the majority, or pumped systems, making use of solar panels in areas where energy is unavailable and calling for water treatment systems and the installation of chlorination systems to disinfect the water. With regard to sanitation, the sample includes various communal septic tank options and individual systems. The analysis indicates that the proposed works are feasible, provided that adjustments are made in the design proposals, especially in the following areas: (i) adopting least-cost solutions; (ii) correcting certain design criteria to reflect the simplicity of the solutions under design and the socioeconomic circumstances of the beneficiary population; (iii) standardizing the designs in a manner more representative of the universe of sizes of some components; (iv) correcting the unit costs of certain items; and (v) providing greater detail in the drawings for works construction. These design adjustments will be promptly

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<sup>12</sup> A preliminary version of the platform can be viewed at the following link: [www.siasar.org](http://www.siasar.org). The program's final evaluation will contain specifications for assessing the system.

- reviewed by the Bank's project team prior to the start of works construction. Since part of this is due to the criteria in MINSA's manual of technologies for rural water and sanitation projects, the program will include a consulting engagement to review and adjust the manual, adapting it to conditions of least economic cost. The [technical link](#) shows the project sample used, including information on type of works, costs, population, etc. In addition to the program sample, the executing agency is about to begin design of 21 additional projects.
- 2.9 **Economic viability.** The analysis was performed on a sample of 23 water projects and 23 sanitation projects with a total value of US\$7.7 million. Of these, 16 water projects and 16 sanitation projects, with a total value of US\$5.8 million, were found to be viable. The analysis yielded the following cutoff amounts for evaluating future projects: US\$443 per inhabitant and US\$2,213 per connection for drinking water supply projects, and US\$227 per inhabitant and US\$1,135 per connection (not including the sanitary core unit) for sanitation projects. The methodology details and results of the sample analysis are given in the [electronic link](#).
- 2.10 The project-by-project analysis was performed through: (i) an analysis of alternatives; and (ii) a cost-benefit analysis of the best alternative, comparing scenarios with and without the project, in order to obtain the net benefit series. The costs taken into account for the evaluation were investment and operation and maintenance (O&M) costs, valued at efficiency prices. The benefits taken into account for the water projects were the economic value of the savings in resources (water haulage time) and the economic value of the increase in consumption. For the sanitation projects, the assumption was a willingness to pay (WTP) equal to the cost of the drainage structure of a septic tank, which is analogous to a least-cost analysis. A sensitivity analysis was performed at each project's net present value and internal rate of return (IRR), the variable assumptions being the household water use with the project and the economic cost of water without the project. It was found that the results are robust to changes in the assumptions; if the value of the benefits is diminished by 10%, only one of the 16 originally viable projects ceases to be economically feasible (94% reliability).
- 2.11 **Financial viability.** A financial viability analysis was performed on 23 communities with an average of 99 connections ([financial link](#)). The user charges were calculated with each community so as to cover administration, operation, and maintenance (AO&M) costs plus the replacement cost of assets with a short useful life. It was verified that the community agrees to pay these costs, which would ensure the financial viability of the projects. The Operating Regulations will establish the method to be used to calculate the user charge, as well as the community consultation processes, ensuring that the following principles are followed: the operating income resulting from collection of the user charges must be sufficient to cover operation, maintenance, administration, and replacement costs of short-term assets (useful life of less than five years). In addition, the JAARs will be encouraged to create a reserve fund equivalent to six months of AO&M costs, to be capitalized annually with small cash surpluses

generated in operating the systems. This fund will allow contingencies to be addressed on a timely basis.

- 2.12 **Institutional viability.** DISAPAS, which is responsible for execution of MINSA water and sanitation projects, was subjected to an ICAS assessment that found the risk to be medium, being rated as substantial in the activity scheduling and internal control systems (see [link](#)). An additional assessment examined the functioning of the technical and social areas that will be involved in program execution. Based on the results, the following mitigating measures will be adopted: (i) the technical, social, and fiduciary areas of DISAPAS, at the central level, will be strengthened with specialists who possess experience on IDB projects; (ii) a DAPOS will be created at each regional MINSA office participating in the program; these DAPOSs will report to DISAPAS on technical matters, and will be comprised of technical experts in water and sanitation management who will provide technical and social assistance to the JAARs; (iii) the technical, administrative, financial, and project management procedures for DISAPAS will be improved and documented; and (iv) the existing information system will be adapted to conform to the Bank's requirements: program execution plan (PEP), annual work plans (AWP), procurement plans, financial plan, results matrix, risk matrix, and project status report.
- 2.13 **Social viability.** During program preparation, a sample of 23 communities was examined in order to identify an appropriate approach to social and community issues in the preinvestment stage. DISAPAS has a Coordination Unit for Community Participation and Indigenous Peoples that will support the process of executing and monitoring the activities associated with program component II (community development and strengthening of the JAARs). This unit, which is comprised of specialists in indigenous and sector issues, will be strengthened with a specialist in indigenous issues for the purposes of program execution. With regard to social intervention, the program calls for a series of activities to create capabilities for system AO&M as well as for environmental and health education and proper use of the infrastructure built in the beneficiary communities. Accordingly, a social intervention methodology has been developed for rural and indigenous areas (see [link](#)), involving the following activities for the various phases of the project cycle: (i) preinvestment phase: (a) community organization workshops, addressing partnership-building, payment for service, participatory design to identify a technical solution, service level and corresponding user charge, and women's participation in decision-making; and (b) regulatory workshops; (ii) investment phase: (a) systems administration workshops (administrative controls, management of accounting books, user charges, transparency, accountability, and access to information); (b) O&M workshops, addressing the use of chlorine for water disinfection; and (c) environmental and health education workshops, addressing hand washing, sanitation in the home, proper household use of water, uses and maintenance of sanitation solutions, waste control, and protection and preservation of water sources; and (iii) post-investment phase: workshops reinforcing the subject areas addressed in the previous phases, particularly systems AO&M. A crosscutting gender approach will be adopted for



these activities, promoting women's involvement in decision-making, particularly in selecting the technical solution/level of service and as JAAR members.

### III. IMPLEMENTATION AND ACTION PLAN

#### A. Summary of implementation arrangements

- 3.1 **Execution arrangements.** The program's executing agency will be the Ministry of Health (MINSA), acting through the organizational structure of the Directorate for the Water and Sanitary Sewer Subsector (DISAPAS), which is currently executing the World Bank's PASAP project. DISAPAS will be responsible for technical, social, and fiduciary management of the program. At the central level, MINSA's Office for Indigenous Sanitary Issues will support DISAPAS in coordinating with local governments and existing Comarca Congresses in the program target areas. DISAPAS will also have the support of staff at the regional health offices, the Water and Sanitation Works Departments (DAPOSs), and the Comarca Water and Sanitation Commissions (CCASs).<sup>13</sup>
- 3.2 **As a condition precedent to the first disbursement, MINSA will contract or appoint, through DISAPAS, the following key personnel for program execution: (i) a program coordinator; (ii) a health/social issues educator; (iii) a civil or sanitation engineer; (iv) a technical specialist in environmental issues; (v) an administration and finance specialist; (vi) a specialist in indigenous issues; (vii) a planning and monitoring specialist; and (viii) a procurement specialist.**
- 3.3 **MINSA regional health offices.** In addition to having the DAPOSs under their administrative jurisdiction, these offices will support DISAPAS in coordinating with the local and traditional indigenous authorities and will promote synergy and complementarity with other health programs operating in the program target area.
- 3.4 **Water and Sanitation Works Departments (DAPOSs).** The DAPOSs, to be created and put into operation at the level of the regional health offices, will support DISAPAS in providing direct technical and social assistance to the JAARs, including those not directly benefited by the program. As a special execution condition, within one year after the program has been declared eligible, the DAPOSs will be up and running at the MINSA regional health offices located in the program target area.
- 3.5 **Comarca Water and Sanitation Commissions (CCASs).** Within the program framework, the CCASs, acting on behalf of the indigenous peoples, will support DISAPAS in planning interventions and promoting the program. Their principal

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<sup>13</sup> The Government of Panama is weighing an institutional reform of the water and sanitation sector that could result in changes to the sector's organizational structure and, consequently, the program execution arrangements. Despite this possibility, the execution mechanism for this operation has been designed so as to allow the structures required for execution, such as DISAPAS and the DAPOSs, to be transferred to another institution (whether new or existing), should the sector reform process pursued by the government with Bank support come to fruition.

- role will be to: (i) channel the communities' water and sanitation needs through MINSA; (ii) coordinate technical training and assistance to the JAARs with MINSA technical staff; (iii) cooperate with MINSA in monitoring and supervision of infrastructure construction; and (iv) with technical support from MINSA, promote the implementation of preventive maintenance systems.
- 3.6 **Works execution.** The works to be financed with program resources will be executed by contracting engineering firms specialized in the specific project type. These firms will be contracted by DISAPAS. Works supervision will be performed either by qualified DISAPAS staff or, as required, by consulting firms with specific experience, depending on the size and complexity of the works and the amounts involved.
- 3.7 **O&M of works and user charges.** Works financed with program resources will be operated and maintained by the communities through the JAARs. Accordingly, MINSA, acting through DISAPAS, will enter into an agreement with each JAAR that, in compliance with the Operating Regulations, provides for the following: (i) the terms for transfer of assets; (ii) the obligation to maintain the works, property, and equipment in accordance with generally accepted technical standards; and (iii) the user charges for each community or group of communities, which will cover the costs of property and/or equipment management, operation, and maintenance, and the replacement cost of short-term assets (useful life of less than five years). These agreements<sup>14</sup> will be the instrument whereby MINSA, acting through the DAPOSs, will enforce compliance with the agreed user charges by the JAARs.
- 3.8 **Operating Regulations.** The DIPASAS internal procedures and those between DIPASAS and the other MINSA areas involved in the program will be described in the Operating Regulations, which will also include the project prioritization criteria, the functional structure for execution, and the profiles for key positions, as well as the program's environmental and social management arrangements. The Operating Regulations are being developed with Bank support and will be subject to the Bank's no objection, once submitted by MINSA. **As a condition precedent to the first disbursement, MINSA will approve the program Operating Regulations with the Bank's prior no objection, including the program's environmental and social management arrangements.** The Technical Office for Cooperation (OTC) may be involved in development of the Operating Regulations, in accordance with the SFW technical framework and operating regulations (document OP-207).
- 3.9 **Eligibility criteria and prioritization.** MINSA will deem eligible those projects which: (i) are in the program target area (see paragraph 3.2); (ii) benefit a rural population (whether indigenous or not), defined as a population of 50 inhabitants or more but not exceeding 2,000 inhabitants; (iii) benefit poor populations (based on the poverty line established by the Office of the Comptroller General of Panama);

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<sup>14</sup> The model agreement for user charge compliance has been used in similar programs in Honduras and Paraguay with great success.

(iv) target areas with specific population dispersion/density characteristics (maximum distance of 500 meters between housing groups and minimum density of 10 inhabitants per hectare); and (v) fall within the water and sanitation project cost thresholds established for the program. Eligible projects are prioritized by the indigenous comarca authorities and MINSA based on water and sanitation service deficits in each community.

- 3.10 **Procurement.** Procurement will be conducted in accordance with the policies established in documents GN-2349-9 and GN-2350-9, and no exceptions are expected. The thresholds for each type of procurement process will be consistent with the country limits established by the Financial Management Services and Operations Procurement Office (FMP). Shopping for goods procurement and works execution, as well as contracting of consulting firms for up to US\$100,000, and of individual consultants for up to US\$20,000, will be subject to ex post supervision. The executing agency will agree with the Bank on a procurement plan for the first 18 months of execution. This plan will be monitored, executed, and updated using tools agreed upon with the Bank.
- 3.11 **Accounting/financial management.** DISAPAS will manage the financial and accounting aspects of the program, using the instruments and execution arrangements it employs for this purpose in executing the World Bank's PASAP program, including the use of a fiduciary agent. The duties of the fiduciary agent under the program will be established in the Operating Regulations. The program's accounting records will be kept using the PENTAGON financial administration system, which is currently used by MINSA for other Bank-financed programs. As a special execution condition, the contract to be signed by MINSA and the fiduciary agent will be submitted for the Bank's no objection within 180 days after the effective date of the contract.

## **B. Summary of arrangements for monitoring results**

- 3.12 **Monitoring and evaluation.** MINSA will monitor and oversee the activities under its responsibility and will prepare reports on progress made and results achieved on these activities. It will also prepare implementation baseline plans and interim plans (to measure progress against the baseline plan). The baseline plans will be used to prepare the program execution plan, and the interim plans to update the procurement plan, financial plan, and AWP. Execution progress will be monitored by tracking the output and outcome indicators contained in the Results Matrix. To evaluate the program, consulting services will be engaged for the following tasks: (i) after 24 months of execution, or once 50% of the SFW/IDB funds have been disbursed, prepare a midterm evaluation to measure progress on the achievement of outcomes, as stipulated in the Results Matrix; (ii) once 95% of the funds have been disbursed, prepare a final evaluation to measure the achievement of outcomes, including the Rural Water and Sanitation Information System (SIASAR) and an ex post economic evaluation.
- 3.13 **Ex post economic evaluation.** This evaluation will be performed in order to quantify the changes observed in key variables such as water consumption

(liters/person/day) or the cost to supply water to a typical household (US\$/m<sup>3</sup>) after the interventions have occurred. The evaluation will be performed for the sample projects that have been evaluated and declared economically viable.

- 3.14 **Audit.** The program's audited annual financial statements will be submitted to the Bank within 120 days after the close of each fiscal year during the operation's disbursement period. The audit will be performed by an independent audit firm acceptable to the Bank and will be governed by the Financial Management Policy for IDB-financed Projects (document OP-273-2) and the guidelines for financial statements and external audits. The audit costs will be financed with program resources.

## **RURAL AND INDIGENOUS WATER AND SANITATION PROGRAM IN PANAMA**

### **PN-G1003**

#### **CERTIFICATION**

I hereby certify that this investment grant operation was approved for financing under the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) at the meeting of the Executive Committee of the Spanish Cooperation Fund for Water and Sanitation (FCAS) of 5 July 2011, as established in the letter of 14 May 2012 signed by Mr. Adriano Garcia-Loygorri, Chief of the Department of the Cooperation Fund for Water and Sanitation of the Spanish Agency for International Development Cooperation (AECID), Ministry of External Affairs and Cooperation (MAEC).

I further certify that resources from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) are available for up to US\$7,500,000 (seven million five hundred thousand United States dollars) in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced operation for a period of six calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, unless a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in United States dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified hereinabove for the implementation of this program. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

*(Original signed)*

*14 May 2012*

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Sonia M. Rivera  
Acting Chief  
Grants and Cofinancing Management Unit  
(ORP/GCM)

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Date

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives			
Lending Program	The intervention contributes to the lending program for small and vulnerable countries, poverty reduction and equity enhancement, as well as, climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	The intervention contributes to the regional development goal for Infrastructure for competitiveness and social welfare (Incidence of waterborne diseases).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to following Bank outputs: i) households with new or upgraded water supply, and ii) households with new or upgraded sanitary connections.		
2. Country Strategy Development Objectives			
Country Strategy Results Matrix	GN-2596	The project contributes to Increase coverage and quality, and improve the management of water and sanitation services, in the country's other provinces.	
Country Program Results Matrix	GN-2661-4	The project is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.0		10
3. Evidence-based Assessment & Solution	8.4	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	7.5	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood		Medium	
Environmental & social risk classification		B	
III. IDB´s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Procurement: information system and shopping method.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	As part of the community development actions and strengthening of the Administrative Unites for the Rural Aqueducts (JAAR), several specific training activities for women will be implemented: (i) Operation and maintenance of the water systems, (ii) environmental trainings, and (iii) hygiene and health education. The participation of women will also be promotes in decision making processes regarding the selection of technical solutions for example.	
Labor			
Environment	Yes	As part of the community development actions and strengthening of the Administrative Unites for the Rural Aqueducts (JAAR), several workshops will be organized related to management and organization of the communities on topics such as: quality of water, disinfection, health and environmental educations, personal hygiene, hand washing, household sanitation, correct use of water, use and maintenance of latrines, garbage control, control of wastewater, and protection and conservation of springs.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	The monitoring and evaluation plan is based on an ex-post cost benefit analysis that should measure if the expected results were achieved (particularly the ones related to water consumption and cost of the service).	

The intervention is aligned with three dimensions of the lending program: lending program for small and vulnerable countries, poverty reduction and equity enhancement, as well as, climate change initiatives, renewable energy and environmental sustainability. The intervention contributes to the Bank regional development goals 2012-2015 to improve the infrastructure for competitiveness and social welfare. The specific outputs it contributes to are: i) households with new or upgraded water supply, and ii) households with new or upgraded sanitary connections. The intervention is aligned with the country strategy and with the country program.

The general objective of the program is to increase access to water and to sanitary connection for rural and indigenous communities in the region of East Panama, in the province of Darien and in the Comarca Guna Yala. The specific objectives of the program are: i) increase and/or build new water systems and sanitation solutions; ii) contribute to the sustainability of water and sanitation systems through community development actions, and the strengthening of Rural Aqueducts Administrative Units (JAAR) and Water and Sanitation Commissions (CCAS) in each comarca, and iii) the strengthening of the Ministry of Health in the intervention zones.

The results matrix presents the outcome and product indicators related to the objectives and components of the program. Outcome indicators presented in the matrix are SMART. The program includes a complete economic analysis. The monitoring and evaluation plan is based on an ex-post cost benefit analysis that should measure if the expected results were achieved (particularly the ones related to water consumption and cost of the service).

The risks currently identified in the risk matrix are reasonable and they include mitigation measure and related metric to track their implementation.

## RESULTS MATRIX

<b>Program objective</b>	The program's general objective is to increase access to clean drinking water and sanitation services in rural and indigenous communities located in the East Panama region, the province of Darién, and the comarca of Guna Yala.							
<b>Impact</b>	<b>Unit of measure</b>	<b>Baseline</b>	<b>Year 1*</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Final target</b>	<b>Means of verification</b>
Water coverage at the national level	%	92.9% (832,371)					93.3% (835,904)	Baseline (2010 census). MINSA report based on census data. Households with water in parentheses.
Sanitation coverage at the national level	%	94.5% (846,871)					94.9% (850,404)	Baseline (2010 census). MINSA report based on census data. Households with sanitation in parentheses.
<b>Component I: Comprehensive rural water and sanitation projects</b>	<b>Unit of measure</b>	<b>Baseline</b>	<b>Year 1*</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Final target</b>	<b>Means of verification</b>
<b>Outputs</b>								
New drinking water systems built	System	0		23	21		44	Final work certificate. A water system is regarded as built when the intake, treatment, distribution, and residential or public connection works are completed.
New sanitation solutions built	Solutions (sanitary core)	0		2,285	1,248		3,533	Final work certificate. Sanitation solutions typically involve sanitary modules at the household level, connected to septic tanks.
<b>Component II: Community development and strengthening of JAARs and CCASs</b>	<b>Unit of measure</b>	<b>Baseline</b>	<b>Year 1*</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Final target</b>	<b>Means of verification</b>
<b>Outputs</b>								
Rural Water Management Boards (JAARs) created	JAAR	0		23	21		44	Six-monthly MINSA reports. The JAAR is regarded as created when it becomes a legal entity.
Members of Comarca Water and Sanitation Commissions (CCASs) trained in project management and dispute settlement	Person	0		15			15	Six-monthly MINSA reports. The assumption is five members trained per CCAS (for three CCASs existing in the target area).
JAAR members trained in operation, maintenance, and business management	Person	0		575	525		1,100	Six-monthly MINSA reports. The assumption is at least 25 members to be trained per JAAR. Training takes the form of a series of workshops/meetings, the number of which varies by community.

Members of JAARs trained in environmental and health education	Person	0		575	525		1,100	Six-monthly MINSA reports. The assumption is at least 25 members to be trained per JAAR. Training takes the form of a series of workshops/meetings, the number of which varies by community.
<b>Component III: Institutional strengthening of MINSA</b>	<b>Unit of measure</b>	<b>Baseline</b>	<b>Year 1*</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Final target</b>	<b>Means of verification</b>
<b>Outputs</b>								
Water and Sanitation Works Departments (DAPOSs) created	Department	0		3			3	Appointment/budget allocation by MINSA.
DAPOSs equipped	Department	0		3			3	Six-monthly MINSA reports. A DAPOS is regarded as equipped when it has received the minimum equipment allocation stated in the procurement plan.
DAPOS technical staff trained in project management and in technical aspects of water and sanitation	Person	0		15			15	Six-monthly MINSA reports. Each department will consist of a department chief, a comarca coordinator, and three technical staff. These five individuals will be trained at each of three DAPOSs.
Program communications plan prepared	Plan	0		1			1	Document approved by MINSA.
Rural Water and Sanitation Information System (SIASAR) in operation	System	0		1			1	Communities in the program target area entered in the SIASAR, and the system generating reports.
<b>Outcomes (for the three components)</b>	<b>Unit of measure</b>	<b>Baseline</b>	<b>Year 1*</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Final target</b>	<b>Means of verification</b>
Indigenous households with home access to drinking water in the target area	Households	4,681		2,139	876		7,696	Six-monthly MINSA reports
Indigenous households with sanitation solution in the target area	Households	1,560		2,139	876		4,575	Six-monthly MINSA reports
Nonindigenous households with home access to drinking water in the target area	Households	411		146	372		929	Six-monthly MINSA reports
Nonindigenous households with sanitation solution in the target area	Households	538		146	372		1,056	Six-monthly MINSA reports
Drinking water coverage in target area	%	58.8% (5092)					99% (8625)	Baseline (2010 census). MINSA report based on census data. Households in parentheses. There currently are 5,092 households with water out of a total 8,654 households in the target area.



Sanitation coverage in target area	%	24.2% (2098)					65% (5631)	Baseline (2010 census). MINSA report based on census data. There currently are 2,098 households with sanitation out of a total 8,654 households in the target area.
Water consumption (liters/person/day) in rural communities (target area)	Liters/person/day	16					120	Ex post economic evaluation.
Cost to supply water to a typical household (US\$/m <sup>3</sup> ) in target area	US\$ x m <sup>3</sup>	6.19					< US\$0.5	Ex post economic evaluation.
% of newly built systems operating to design technical specifications	%	47.1%			75%	75%	75%	Six-monthly MINSA reports. The design technical specifications focus on two aspects: service delivery (in m <sup>3</sup> ) and water quality (meets potability standards based on national laws and regulations).
% of newly built systems that are financially sustainable	%	47.1%			75%	75%	75%	Six-monthly MINSA reports. Systems are regarded as financially sustainable when revenues > AO&M costs. Six-monthly MINSA reports.
% of JAARs with at least one woman on the board of directors	%	0			66%	66%	66%	Six-monthly MINSA reports. There are no baseline data. The target is set for program systems.
Water systems in target area monitored in real time using the SIASAR system.	System	0%			100%	100%	100%	SIASAR reports and final evaluation.

\* Year 1 corresponds to the last quarter of 2012.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Panama  
**Project number:** PN-G1003  
**Name:** Rural and Indigenous Water and Sanitation Program in Panama  
**Executing agency:** Ministry of Health (MINSA)  
**Prepared by:** Karina Díaz Briones, procurement specialist (FMP/CPN), and  
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### **I. EXECUTIVE SUMMARY**

- 1.1 The fiduciary management assessment was based on the Institutional Capacity Assessment System (ICAS) and was performed on the Directorate for the Water and Sanitary Sewer Subsector (DISAPAS) of Panama's Ministry of Health (MINSA). This entity is responsible for execution of the World-Bank-financed Panama Water Supply and Sanitation in Low-Income Communities Project (PASAP), Agreement No. 7477-PAN, and will execute this program simultaneously.
- 1.2 Having made significant advances in procurement, Panama has lately been implementing a series of legislative changes aimed at expanding the scope of best value bidding and increasing flexibility in the use of direct contracting. The government is now beginning execution of a World Bank financed program to strengthen the public procurement system (project P121492). With regard to using the system, the Bank agreed to use of the information portal and validated pilot use of the framework agreement for purchases below US\$50,000. With regard to country financial systems, a project module for the SIAFPA is currently being implemented and is being tested in IDB project 2568/OC-PN; however, it is not expected to be used in this program. The PENTAGON system, used by MINSA for other IDB operations, is available to DISAPAS and will also be used for this program.
- 1.3 In 2011, the Government of Spain, acting through the Spanish Cooperation Fund for Water and Sanitation (FCAS), managed by the Spanish Agency for International Development Cooperation (AECID), agreed with the Government of Panama to provide a US\$15 million grant for a water and sanitation program targeting rural and indigenous areas of the country. In turn, the Government of Panama undertook to provide a counterpart contribution equivalent to US\$15 million. MINSA prioritized indigenous areas of the country that had been targeted by the PASAP and Gobernanza programs. Under this framework, a first operation was structured for US\$15 million, composed of a US\$7.5 million grant

from the IDB-administered Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (SFW) and a local contribution of US\$7.5 million. This first operation is multilateral and is concentrated in the health regions of East Panama, Guna Yala, and Darién. It will be supplemented by a bilateral operation funded with US\$7.5 million in FCAS resources and a local contribution equivalent to US\$7.5 million. This bilateral operation (Spain/Panama) will finance water and sanitation interventions in the comarca of Ngäbe Büglé. In view of the above, the analysis contained in this annex has been performed solely for the Bank-administered operation. It should be noted also that World Bank financed PASAP program has provided important inputs for implementation of the proposed program.

## **II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY**

### **A. Organizational and functional structure**

- 2.1 The program's executing agency will be the Ministry of Health (MINSA), acting through the organizational structure of the Directorate for the Water and Sanitary Sewer Subsector (DISAPAS), which is currently executing the World Bank's PASAP project. DISAPAS will be responsible for program planning; technical, social, and fiduciary management; and monitoring and evaluation.
- 2.2 DISAPAS will have a program coordinator who will serve as project manager for technical, fiduciary, and monitoring management, as act as liaison with the Bank. Technical management will be channeled through the Drinking Water Quality and Wastewater Department and the Water and Sanitation Works Department, both of which report to DISAPAS. Social management of the program will be the responsibility of a Coordination Unit for Community Participation and Indigenous Peoples.
- 2.3 An Administrative and Financial Coordination Unit will be created within DISAPAS for program execution, responsible for fiduciary management of the budget, procurement, finance, and accounting. MINSA will continue to have a fiduciary agent for procurement and payments made with resources from the various funding sources (not including bidding processes). A planning and monitoring specialist will be responsible for program planning and monitoring. In addition, the program will have the support of the General Counsel, and the Coordination Unit for Quality Control will administer the program's internal controls.
- 2.4 The Government of Panama is weighing an institutional reform of the water and sanitation sector that could result in changes to the sector's organizational structure and, consequently, the program execution arrangements. Despite this possibility, the execution mechanism for this operation has been designed so as to allow the structures required for execution, such as the DISAPAS and the Water and Sanitation Works Departments, to be transferred to another institution (whether new or existing), should the sector reform process pursued by the government with Bank support come to fruition.

**B. Planning**

- 2.5 According to the ICAS findings, DISAPAS is in the early stages of development for organizational and programming capacity due to a lack of adoption, management, documentation, and formalization of procedures for preparing, tracking changes in, and monitoring management instruments used for the program, such as the program execution plan (PEP) and the annual work plan (AWP). In fact, although an AWP now exists, it only schedules the contract execution activities and does not include any scheduling for the stage preceding the procurement processes or for the procurement processes themselves. This makes it impossible to identify the activities to be carried out, the critical times, and those responsible. In addition, it has been shown that financial scheduling is not synchronized with the actual times scheduled in the AWP. During preparation of this operation, the executing agency was trained to develop and prepare the various planning and management instruments used by the Bank, such as the PEP, procurement plan, financial plan, results matrix, risk matrix, etc., which should make it possible to remedy this situation.

**C. Procurement**

- 2.6 With regard to procurement execution, the PASAP program has enabled the DISAPAS staff to gain general knowledge of the procurement processes used by multilateral organizations. They also have knowledge of the sector, market contractors, and how to manage contracts under the various shopping processes. However, there have been difficulties in preparing package bidding documents and in the subsequent evaluation process. Moreover, the program's PEP and procurement plan call for a significant work load during the first two years of execution, making it advisable to strengthen the procurement unit.

**D. Financial management**

- 2.7 DISAPAS has executed projects with the World Bank under execution arrangements that include the use of a fiduciary agent. The accounting records of the projects executed by DISAPAS are kept using the PENTAGON software, which is currently used by other Bank-financed programs and has the modules necessary for effective project management. MINSA has Panama's Integrated Financial Management System (SIAFPA), and the project information required by this system is reported on an ex post basis using information provided by the PENTAGON software. The ICAS assessment indicates that DISAPAS has room for improvement in terms of internal control, particularly in updating manuals, improvements in planning and monitoring, and adjustments in its legal and regulatory framework to reflect the way it works and project requirements. DISAPAS also has a quality control area, making it easier to adapt the system and strengthen it for the program's execution.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

- 3.1 Upon review of the assigned DISAPAS staff members and their qualifications, level of responsibility, duties and responsibilities, and procurement performance during PASAP execution, DISAPAS's procurement risk was determined to be medium. The risks having been identified, an NCB document needs to be agreed upon that contains the lots to be tendered and the award under this procurement method and the respective training. In addition, the team needs to become familiar with the use of the procurement plan as a management, planning, and budget instrument. Lastly, it would be advisable for the program Operating Regulations to address procurement duties and responsibilities.
- 3.2 The financial fiduciary risk for DISAPAS is medium, due to its undeveloped internal control system and the need to improve its planning and monitoring practices, which could impact the allocation of budget resources and requests for advances from the Bank. Mitigation measures will include adding a planning and monitoring specialist, adapting the software applications, and updating the DISAPAS structure and manuals.
- 3.3 The global fiduciary risk is regarded as medium, since the procurement and financial risks are both medium.

### **IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS**

- 4.1 To facilitate contract negotiations by the project team, particularly LEG, the agreements and requirements to be considered in the special provisions are included below:
  - (i) As a condition precedent to the first disbursement, evidence will be provided of the contracting of key personnel, including but not limited to a program coordinator, an administration and finance specialist, a planning and monitoring specialist, and a procurement specialist.
  - (ii) In Panama there is parity between the Panamanian balboa and the United States dollar; consequently, any of the alternatives selected by the government during contract negotiation will be sufficient.
  - (iii) Program financial statements, audited by an independent auditing firm, will be delivered within 120 days after the close of each fiscal year or the date of the last disbursement.

### **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 The fiduciary agreement and requirements for procurement establish the applicable rules for the execution of all project procurements.
- A. Procurement execution**
- 5.2 Goods and works required for this program will be financed with resources from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the

- Caribbean (SFW), which is administered and supervised by the Bank. Bidding processes will be conducted in accordance with document GN-2349-9 of April 2011, and the selection and contracting of consulting firms will be conducted in accordance with document GN-2350-9 of April 2011.
- 5.3 **Procurement of works, goods, and nonconsulting services:** While there are no plans for international competitive bidding (ICB), such processes, if required, will use the standard bidding documents issued by the Bank. Processes subject to national competitive bidding (NCB) and the shopping method will be executed using the models established for this operation by the Bank. In addition, optional use of the framework agreements is authorized for up to US\$50,000.
- 5.4 **Selection and contracting of consultants:** Consulting service contracts under the program will be executed using the Bank's standard request for proposals (RFP). Using PASAP funds, MINSA engaged the firm PROINTEC to design and supervise the works packages to be financed and tendered under this program. Accordingly, there will be no need to contract the design and supervision of the first three bidding packages, which will be executed during the term of the contract with that firm. Supervision will, however, have to be contracted for the remainder of the packages.
- 5.5 **Selection of individual consultants** will take into account their qualifications for the work involved, based on a comparison of the qualifications of at least three candidates.
- 5.6 **Operating expenses** will be financed with the local contribution.
- 5.7 **Single-source selection:** None planned.
- 5.8 **Advance procurement/Retroactive financing:** None planned.
- 5.9 **National preference:** Not applicable.

Table of Threshold Amounts (US\$000s)

Works			Goods <sup>1</sup>			Consulting	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity Consulting	Short list 100% national
≥ US\$3,000,000	> US\$250,000 and < US\$3,000,000	< US\$250,000	≥ US\$250,000	> US\$50,000 and < US\$250,000	< US\$50,000	> US\$200,000	≤ US\$200,000

<sup>1</sup> Includes nonconsulting services.

## B. Main procurement processes

**Main Bank-financed Procurement Processes**

Description of planned procurement	Estimated amount (US\$000)	Selection method
<b>Works</b>		
<b>Contracting of construction firms for comprehensive rural water and sanitation projects:</b> Six NCB processes will be conducted, each for two to three lots; each lot will include six to nine projects. The grouping criteria reflect geographic considerations, contract size, and ease of access (AECID, acting through the Bank, will finance 50%, i.e., US\$6.3 million).	12,600	NCB
<b>Goods</b>		
<b>Procurement of various goods</b> will include laboratory, transportation, computer, and other equipment.	367	S/NCB
<b>Nonconsulting services</b>		
<b>Printing services and training.</b> Printing of brochures, dissemination workshops, various training events.	200	S
<b>Consulting firms</b>		
<b>Works supervision:</b> Supervision of the three bidding packages for the second year.	375	CQBS
<b>Audit:</b> Includes financial audit and program evaluation.	75	CQS
<b>Institution-strengthening:</b> Various services for management strengthening.	90	CQS
<b>Individual consultants</b>		
<b>Program evaluation.</b> Midterm and final evaluations	30	NICQ

## C. Procurement supervision

- 5.10 Given that DISAPAS personnel do not have substantial experience with NCB, the supervision mechanism has been established according to the procurement method, not the amount. In the case of firms, the threshold is US\$100,000 due to the type of associated procurement processes. These amounts may be modified by the Bank as such capacity changes. Ex post reviews will be limited to the processes listed in the procurement plan, which will indicate the supervision mechanism for each process. Ex post reviews will be conducted every 12 months pursuant to the project supervision plan. The ex post review reports will include at least one physical inspection visit, chosen from among the procurement processes subject to ex post review.

Thresholds for ex post review	
Works and goods	Consulting services
Shopping	Consulting firms for an amount less than US\$100,000. Individual consultants for an amount less than US\$20,000.

- 5.11 **Special provisions:** None planned.
- 5.12 **Records and files:** Procurement records will be stored and managed by the DISAPAS Administrative and Financial Coordination Unit, which will designate a staff member specifically for this activity.

## **VI. FINANCIAL MANAGEMENT**

### **A. Programming and budget**

- 6.1 The Ministry of Economy and Finance (MEF) is responsible for formulating and overseeing the budget. Prior to 31 July of each fiscal year, the MEF is required to submit a budget proposal to the National Assembly. The National Assembly is responsible for approving the budget and any budget increase. Since the draft budget is prepared well in advance, it undergoes many substantial changes during its execution, which makes it less meaningful as a planning instrument. The expenses to be incurred under the program are not included in the budget for fiscal 2012, but no disbursements are expected to be required during this period. In subsequent years, the ambitious investment pursued by the government and the need to stay within the fiscal deficit ceilings provided in the country's legal and regulatory framework may lead to restrictions on the allocation of budgetary resources for the program.

### **B. Accounting and information systems**

- 6.2 SIAFPA was adopted as the official accounting and budgetary information recording system from 2000 onward. A project module integrated into SIAFPA was recently developed and is now in pilot use on project 2568/OC-PN and on another, complementary World Bank project. However, it is not expected to be used for this program, since the current execution arrangements for the World Bank-financed PASAP project, scheduled to conclude in 2012, will be simultaneously used for this program. These arrangements include the use of a fiduciary agent that takes the payments out of the normal budgetary cycle. MINSA has the SIAFPA, and the program expenses are reported to this system on an ex post basis.
- 6.3 DISAPAS currently has the PENTAGON software application, which is also being used by MINSA to execute loans 1719/OC-PN and 1719/OC-PN-1 and will be used for this program's financial management, once the necessary adjustments have been made to improve the planning required for the advance disbursement modality. PENTAGON is a stand-alone SIAFPA system that includes the necessary modules for proper project management and the reports required by SIAFPA for project execution record-keeping.
- 6.4 Program accounting will be governed by the standards issued by the Office of the Comptroller General of the Republic (CGR), which are based on the accrual method but are not in line with the International Public Sector Accounting Standards (IPSAS). Program financial statements, audited by an independent auditing firm, will be delivered within 120 days after the close of each fiscal year or the date of the last disbursement.



**C. Disbursements and cash flow**

- 6.5 Panama does not employ a general treasury account, and there are more than 6,000 bank accounts at Banco Nacional. There is parity between the Panamanian balboa and the United States dollar.
- 6.6 The Bank will transfer the program resources to a designated account for program PN-G1003, opened by the fiduciary agent at a banking institution, in the form of advances<sup>2</sup> to cover funding needs under the respective financial plan. The bilateral program resources will be managed in a separate account. The initial financial plan indicates that no disbursements will be required from the IDB in 2012; US\$4.1 million will be required in 2013, US\$3.2 million in 2014, and the remaining balance in 2015. Supporting documentation for disbursements will be subject to ex post review.
- 6.7 Although the MINSA regional offices are involved in the technical and social aspects of project execution, execution is centralized at DISAPAS from a financial standpoint.

**D. Internal control and internal audit**

- 6.8 MINSA has an Internal Audit Office, and DISAPAS has a quality control area. Nevertheless, as indicated above, the ICAS assessment shows that there is room for improvement at DISAPAS in terms of internal control. The actions called for under the program are aimed at strengthening the internal control system of DISAPAS only.

**E. External control and reports**

- 6.9 The CGR exercises prior control and thus lacks the independence required for external control of the program. Audits, at an estimated yearly cost of US\$25,000, will be performed by an independent, tier II or III auditing firm acceptable to the Bank. An annual opinion on the financial statements will be required, and the terms of reference will include review of the supporting documentation for disbursements.

**F. Financial supervision plan**

- 6.10 Financial supervision will focus on the auditors' reports, and the supporting documentation for disbursements will be reviewed on an ex post basis by the auditors or during financial inspection visits, initially at least once a year. As internal controls are strengthened, it will be determined whether to modify the program's financial supervision accordingly.

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<sup>2</sup> In accordance with document OP-273-2, "Financial management policy for IDB-financed projects."

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/12

Panama. Nonreimbursable Financing GRT/WS-\_\_\_\_-PN to the Republic of Panama  
Rural and Indigenous Drinking Water and Sanitation  
Program in Panama

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, as Administrator of the Spanish Fund for Water and Sanitation in Latin America and the Caribbean, hereinafter the “Fund”, to enter into such contract or contracts as may be necessary with the Republic of Panama, as Beneficiary, for the purpose of granting it a nonreimbursable financing to cooperate in the execution of a rural and indigenous drinking water and sanitation program in Panama. The nonreimbursable financing will be for the amount of up to US\$7,500,000, from the resources of the Fund, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Nonreimbursable Financing Proposal.

(Adopted on \_\_ \_\_\_\_ 2012)

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