

Japan Special Fund Poverty Reduction Program (JPO)
Loan Enhancement Program (LEP)
Project Profile
March 18, 2007

I. Basic project data

Beneficiary Country	Panama		
Project name:	Indigenous Entrepreneurial Development in Panama		
Project number:	PN-T1032		
Project team:	Martin Chrisney (RE2/FI2) and Carlos Perafán (SDS/IND) (Team Co-leaders); Dianna Moyer (SDS/IND); and Alberto Vildoso (COF/CPN).		
Executing agency:	Ministry of Governance and Justice via the Indigenous Policy Directorate		
Beneficiaries:	Indigenous communities in 5 Comarcas and the Naso people.		
Date of request:	December 21, 2006		
Financing plan:	IDB (JPO/LEP):	US\$	1.6 million
	Local Counterpart:	US\$	0.4 million
	Total:	US\$	2.0 million
Tentative dates:	Analysis Mission		May 2007
	Loan Committee		3rd Q 2007
	Board Approval		3rd Q 2007
Execution period:	4 years		
Disbursement period:	4.5 years		

II. Background and problem statement

- 2.1 In Panama, the indigenous peoples represent 10% of the national population, or 285,231 people. Just over half of these people live in five autonomous territories, or comarcas, where their own traditional administrative political structures, autonomy, identity, and historical cultural values are recognized as part of the national system. The indigenous peoples living in the comarcas, due to their relative isolation, have been able to maintain many of their traditional practices and knowledge, and in so doing have preserved rich cultural traditions, heritage and social and natural capital.
- 2.2 Barriers to Growth. This population has not benefited from the country's economic growth, and poverty persists. Among the factors accounting for this are: structural barriers for indigenous participation in the market economy, the physical isolation of the comarcas, weak technical capacity, lack of resources to organize and establish businesses and develop and commercialize traditional knowledge and social and natural capital, and the incompatibility of traditional social organization with the requirements of the market economy. As a result, there are few linkages between traditional productive activities and market opportunities and resources, and for the most part non-indigenous intermediaries benefit from the greatest value-added activities of productive chains in which indigenous peoples participate.
- 2.3 Institutions to Support Entrepreneurship. Despite these challenges, some indigenous peoples have been able to overcome these barriers and have capitalized on their

natural resource base and traditional knowledge to sell products to domestic and international markets. These efforts are often supported by cooperatives and national indigenous organizations that organize and leverage resources for capacity building, the establishment of legal status, and the development and commercialization of products and services. Protection of intellectual property is another measure to bolster the linkages between traditional knowledge and market economies. The passage of Law 20 in 2000 provides for collective property rights over traditional knowledge and cultural expressions and has led to the subsequent registrations of products, such as the mola, the chácara, and the pawau, all of which are in the process of establishing domestic and international markets.

- 2.5 Strategies to Foster Growth: Potential areas for indigenous entrepreneurial development include: tourism, agro and fishery products, artisan products, forestry services, natural resource management, medicinal products, among others. Success in developing these products and services will require identifying their market potential, establishing indigenous business clusters and productive chains, and providing the technical capacity, organizational assistance, internal legal framework and access to capital necessary to harness market opportunities. Building off lessons learned and existing good practices and identifying the clusters and development strategies together with indigenous entrepreneurs will allow indigenous businesses to create greater value added under culturally and socially appropriate terms.
- 2.6 Bank Strategy. Support for the rural and indigenous population is an objective of the IDB Country Strategy. The IDB is financing a technical cooperation (PN-T1026) to carry out a diagnostic assessment and action plan to identify entrepreneurial opportunities (potential and existing productive chains and indigenous clusters), and gaps in technical capacity, entrepreneurial know-how, capital and tools that limit income growth. Normally, these gaps act as barriers for indigenous businesses to find business partners, compete for national and international financing and market opportunities, and to access support from larger IDB operations or private sector development programs.
- 2.7 **Beneficiaries of the Program.** The activities financed under the present technical cooperation will address the gaps and bottlenecks in capacity, organization, governance, market analysis and capital in order to consolidate and develop indigenous entrepreneurial activities in the five comarcas and with the Naso people. Demand for this program comes directly from the indigenous men and women from the comarcas and the Naso people, and their active participation in the identification of potential clusters and productive chains to be supported under this program has been achieved through extensive consultations with indigenous communities, leaders, and entrepreneurs throughout Panama (financed under PN-T1026).

III. Program Objective and Description

- 3.1 **Objective:** This loan enhancement program aims to enhance access to financing and benefits from market opportunities for indigenous entrepreneurs. In turn, improved market access will help establish sustainable and self-generating means to reduce poverty among the indigenous communities in the five comarcas and for the Naso

people. The specific interventions target capacity building, legal support, provision of tools and equipment, and the articulation of mechanisms to access financing under PN-L1014.

- 3.2 **Component I: Indigenous entrepreneurial development.** To develop indigenous businesses, activities will focus on the gaps identified in the Action Plan developed under PN-T1026, including: (i) legal, financial and organizational support for the formation and consolidation of indigenous businesses; (ii) building technical capacity to enhance quality and design, lower costs, and increase the value added obtained by indigenous entrepreneurs; (iii) develop business plans and initial commercialization programs and market studies (identification of potential markets and their requirements, buyers, investors and other potential partners); (iv) identify financing needs and funding sources; (v) support business alliances, joint ventures and other organizational partnering models; (vi) strengthen the use of intellectual property tools in both national and international jurisdictions; (vii) identify mechanisms to maintain business financial sustainability while at the same time producing resources for communal social and development priorities; and (viii) identify culturally appropriate mechanisms to provide collateral, manage risk, and gain access to the financial and non-financial resources available under PN-L1014.
- 3.3 **Component II: Legal and customary law framework.** On broader legal issues, a diagnostic and consultations will identify current bottlenecks and gaps within the comarca's national legal framework (*Cartas Orgánicas*) and their customary law. Legal support will be given to the traditional authorities to articulate legal mechanisms that promote investment and, at the same time, protect their rights over benefit sharing and the administration of resources. International models and national efforts to address collective land titling and provision of alternative financing guarantees and access will be reviewed and discussed with traditional authorities and support for necessary reform and establishment of alternative models will be provided.
- 3.4 **Component III: Economic governance.** On economic governance issues, interventions will address: (i) the lack of clarity over the business or cooperative's property rights and investments and collective and traditional rights and practices; (ii) lack of separation between the technical management of indigenous enterprises and the political bias of indigenous organizations; (iii) conflicts on revenue management; and (iv) enforcement of obligations with third parties. This component will build economic governance capacity among the entrepreneurs, indigenous organizations, and traditional leaders and assist them in establishing clear operating rules on how funds generated from business activities will be invested and managed.
- 3.5 **Component IV: Promotion and dissemination.** To generate demand, build awareness, and maintain dynamic communication and consultation with the participating indigenous peoples, a promotion and dissemination component will be financed. The outputs will include an indigenous entrepreneurial website for promotion of products, material on current initiatives, regional outreach, and informational programs through consultation workshops, radio programs, and use of other media.

IV. Cost and financing

Type of Expense	JPO	Local Counterpart	TOTAL
<i>Indigenous Entrepreneurial Development</i>	\$1,100,000	\$387,000	\$1,487,000
Staff/consulting	\$620,000	\$280,000	\$900,000
General Support/equipment	\$480,000	\$90,000	\$570,000
Contingencies	0	\$17,000	\$17,000
<i>Legal and Customary Law Framework</i>	\$150,000	\$13,000	\$163,000
Staff/consulting	\$80,000	\$9,000	\$89,000
General Support/logistics	\$50,000	\$4,000	\$54,000
Contingencies	\$20,000	0	\$20,000
<i>Economic Governance</i>	\$100,000	0	\$100,000
Staff/consulting	\$64,000	0	\$64,000
Meeting and training logistical costs	\$36,000	0	\$36,000
<i>Promotion and Information Dissemination</i>	\$150,000	0	\$150,000
Staff/consulting	\$98,000	0	\$98,000
General Support/logistics	\$52,000	0	\$52,000
<i>Auditing and Eval.</i>	\$100,000	0	\$100,000
TOTAL	\$1,600,000	\$400,000	\$2,000,000

V. Executing agency and execution structure

- 5.1 The implementation agency is the Ministry of Governance and Justice through its Indigenous Policy Directorate. An international consultant that will be hired as Project Coordinator for the four-year execution period. The funds for this program will be administered by the Project Management Unit contracted by PN-L1014, and the creation of this unit will be a condition for the effectiveness of the present operation. Terms of reference for consultancies and budgets for this Program will be developed by the Project Coordinator under the supervision of the Director of the Indigenous Policy Directorate and an Advisory Committee that will consist of indigenous leaders from each comarca and the Naso People as well as private sector and government representatives and business development specialists. This Advisory Committee will meet periodically to review progress, flag potential issues and opportunities, and identify synergies. Disbursements will be solicited by the Project Coordinator in accordance with the terms of reference and project costs agreed upon with the Advisory Panel and Indigenous Policy Directorate, and should follow IDB procurement procedures.

VI. Major issues

- 6.1 The main risk is the insufficient institutional capacity from the Co-executing agency. Therefore, the Project Team will carry out an Institutional Capacity Assessment of the Co-executing agency during preparation and make recommendations on improvements to the authorities. Further, the support of personnel and administrative capacity from the Project Management Unit of PN-L1014 will help alleviate administrative tasks for the Co-executing agency. Given that the majority of productive activities carried out are concentrated in very preliminary phases of the production chain with minimal capital and capacity, there are commercial risks. To overcome this risk, interventions for weaker and less organized sectors will be carried out gradually and will also

leverage opportunities to partner with more experienced indigenous counterparts.

VII. Action Plan

- 7.1 Currently, studies are underway to prepare the institutional design, identify activities and outputs, budgets, and operational plans for the various components of the Program. The project team has obtained a letter from the Ministry of Economy and Finance of Panama dated November 24, 2006 that expresses the government's support to go ahead with the proposed diagnostic and preparation of an action plan that will serve to meet the requirements of the OP-765. The Japanese Fund gave approval for this technical cooperation on February 1, 2007.

VIII. Environmental and Social Strategy

- 8.1 To prevent and mitigate risks from socio-cultural and environmental impacts, the Program will finance an assessment and establish an Advisory Panel to track impacts and correct for undesired negative impacts throughout execution. This Advisory Panel will serve as a direct voice from the communities to the Co-executing agency in order to flag potential conflicts and negative impacts at early stages in order to prevent or mitigate such impacts. In addition, the economic governance component will specifically address and establish mechanisms that channel resources into community development activities while ensuring financial sustainability of the business endeavors.