

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

INDIGENOUS ENTREPRENEURSHIP AND FINANCIAL INCLUSION PROGRAM

(PN-L1157)

LOAN PROPOSAL

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OPTIONAL
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5. Program Operating Manual
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7. Sample of indigenous business projects
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ABBREVIATIONS

AFOPROIN	Apoyo para la Formulación de Proyectos Productivos Indígenas de Alto Impacto [Support for Formulation of High-impact Indigenous Project]
BNP	National Bank of Panama
CBIO	Community-based indigenous organization
CNPI	Consejo Nacional de los Pueblos Indígenas [National Council of Indigenous Peoples]
EHPM	Encuesta de Hogares de Propósitos Múltiples [Multipurpose Household Survey]
ESMF	Environmental and Social Management Framework
ESMR	Environmental and Social Management Report
MINIOB	Ministry of the Interior
PCU	Program coordination unit
PEU	Program execution unit
PNDIPI	Plan Nacional de Desarrollo Integral de los Pueblos Indígenas [National Plan for the Integral Development of Indigenous Peoples]

PROJECT SUMMARY

PANAMA INDIGENOUS ENTREPRENEURSHIP AND FINANCIAL INCLUSION PROGRAM (PN-L1157)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility^(a)	
Republic of Panama			Amortization period:	24 years
Executing agency:			Disbursement period:	6 years
Ministry of the Interior of Panama			Grace period:	6.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	40,000,000	93.02	Credit fee:	(c)
Local:	3,000,000	6.98	Inspection and supervision fee:	(c)
Total:	43,000,000	100	Weighted average life (WAL):	15.25 years
			Currency of approval:	United States dollars
Project at a Glance				
Objective/description of the project: The program's objective is to help boost the incomes of indigenous entrepreneurs through access to finance, the provision of productive infrastructure, and ongoing technical assistance for indigenous businesses. The specific objectives are to: (i) increase access to finance for indigenous entrepreneurs; (ii) reduce the investment shortfall in productive infrastructure in the indigenous regions (<i>comarcas</i>) and territories; and (iii) expand access to nonfinancial services such as training and ongoing technical assistance for indigenous entrepreneurs, accompanied by preinvestment.				
Special contractual conditions precedent to the first disbursement: (i) the Program Operating Manual is approved and in effect and includes as an annex the Environmental and Social Management Plan for projects in the sample and the program Environmental and Social Management Framework, under terms previously agreed between the executing agency and the Bank; and (ii) the program coordination unit has been reinforced with the hiring of a coordinator, a financial specialist, a procurement specialist, an environmental specialist, and a social specialist for the program (paragraph 3.10).				
Special contractual conditions of execution: (i) prior to disbursement of the funds under Component 1 of the program, the trust agreement with the National Bank of Panama for administration of the resources of this component will have been signed and will be in force; and (ii) prior to the commitment and disbursement of funds to a community-based indigenous organization (CBIO) to execute works financed under Component 2 of the program, a contract will have been signed between the executing agency and the CBIO for execution of the works in question, detailing among other aspects the terms on which the resources will be transferred, the rendering of accounts, and other obligations of the parties (paragraph 3.11). Those special contractual conditions will be included in the Environmental and Social Management Report (required link 3).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges:^(d)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>
			EI	<input type="checkbox"/>
Crosscutting themes:^(e)	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input type="checkbox"/>

^(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency, interest rate, and commodity conversions. When considering such requests, the Bank will take operational and risk management considerations into account.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 **Indigenous peoples of Panama: population, governance, and territories.** There are seven indigenous peoples in Panama (Ngäbe, Guna, Emberá, Wounaan, Buglé, Naso-tjerdi and Bri-bri) whose combined population of 574,353¹ represents 14.7% of the country's total population.² Indigenous peoples live in five *comarcas* (hereinafter "indigenous regions")³ and seven territories comprising collective lands and ancestral territories.⁴ They possess a unique wealth as expressed in their territorial and natural heritage and their social and cultural capital. Indigenous peoples collectively own more than 20% of the country's territory in areas of greatest biodiversity. Moreover, Panama has the most advanced system for recognizing indigenous autonomy in the region, and as a result, its peoples have strengthened their traditional governance: each one has its own government, and they are organized in 12 traditional governance structures that are highly representative and boast strong social capital.
- 1.2 **Poverty, inequality, and gaps among the indigenous population.** According to data from 2017, there are still high indices of poverty among the rural population (41.4%) and the indigenous population (79.6%), while in urban areas the figure was 11%.⁵ In addition, there are significant gaps between the indigenous and the nonindigenous population in terms of access to basic services, access to financial services, and development indicators.⁶
- 1.3 **Government policy towards indigenous peoples.** With a view to closing the poverty and income gaps and promoting sustainable and equitable growth, the Government of Panama, through a broad process of consultation with the country's indigenous governance structures, approved the National Plan for Integral Development of Indigenous Peoples (PNDIPI), which includes three strategic pillars: (i) public services to strengthen human capital; (ii) governance;

¹ Multipurpose Household Survey (EHPM), 2017.

² The largest indigenous population groups are the Ngäbe (381,859 persons), the Guna (119,484) and the Emberá (49,459), who together represent 95.85% of the country's indigenous population. The indigenous population living in the indigenous regions amounts to 254,203, while the remainder of the indigenous population (320,150 persons) lives in other parts of the country. EHPM, 2017.

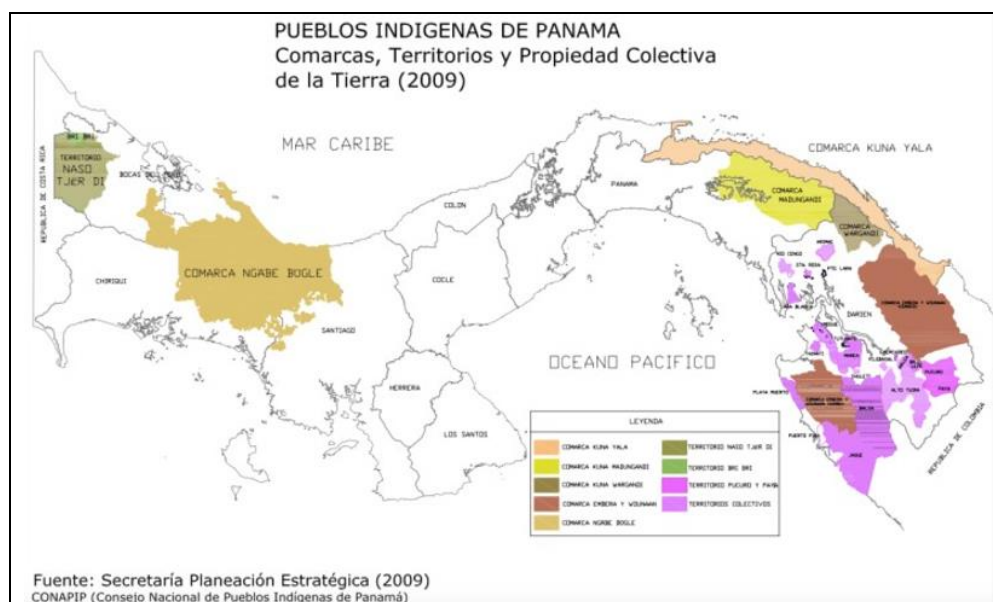
³ The indigenous regions are recognized autonomous political-administrative divisions in which the peoples have control over their territory and enjoy the right to self-government, in accordance with their uses and customs. Of the five recognized indigenous regions (Guna Yala, Ngäbe-Buglé, Emberá-Wounaan, Wargandí and Madugandí), the first two are provincial in nature and the last three are districts (*corregimientos*). In addition to the indigenous regions there are three territories (Naso-tjerdi and Bri-Bri in the province of Bocas del Toro and Takargunyala in the province of Darién) and four collective lands (Emberá-Wounaan and Wounaan in the province of Darién, and Ipetí and Piriati in the province of Panamá).

⁴ The collective lands are a form of collective security for the indigenous territories that lie outside the indigenous regions. Law 72 of 2008 establishes a special procedure for the free granting of collective ownership of lands traditionally occupied by indigenous peoples and communities, pursuant to Article 127 of the Political Constitution of the Republic of Panama. Ancestral territories do not yet have territorial security, but they have recognized indigenous governance structures that are represented in the National Council of Indigenous Peoples.

⁵ Source: <https://www.mef.gob.pa/?s=indigencia> Poverty and indigence by income – 2017.

⁶ Drinking water coverage is 93.5% nationwide, 78% in rural areas, and 56% in indigenous regions (INEC. "Census 2010. Volume III: Household Characteristics," 2011). In all, 18.7% of indigenous rural dwellers have access to basic sanitation, versus 95% and 63.9% nationwide

and (iii) economic development. The formulation of the PNDIPI was supported by the National Roundtable of Indigenous Authorities, now the National Council of Indigenous Peoples (CNPI),⁷ which represents the 12 indigenous governance structures of the five regions and seven territories. The Government of Panama has asked the Bank to provide support for developing the plan's economic pillar.



- 1.4 **Income and gender gaps among indigenous entrepreneurs.** Panama has 89,986 indigenous entrepreneurs, with an average monthly income that is 4.38 times less than that of nonindigenous entrepreneurs (US\$226.4 versus US\$993.6). Of these, 45.5% are indigenous women, 1,327 are the bosses or owners of businesses, and 46% are located in the indigenous regions of Guna Yala, Emberá and Ngäbe-Buglé. The provinces of Panamá and Bocas del Toro are home to 40% of the country's indigenous entrepreneurs. Indigenous women entrepreneurs earn on average three times less than indigenous male entrepreneurs (US\$113.7 versus US\$340.6). These gaps are due to various factors,⁸ including barriers to access to financial and nonfinancial services and the productive infrastructure deficit.

⁷ Executive Decree 203 (27 July 2018) established the CNPI as the standing body responsible for coordinating public policies with the indigenous peoples.

⁸ Other factors include the lack of resources to finance territorial development models for each indigenous group, based on its culture and identity, the shortage of research on traditional crops and scant investment in improving productivity conditions, low investment in improving the quality of production, and weaknesses in cooperative structures and own economic activities.

- 1.5 **Barriers to access to financial services.** Markets relating to land-based incomes and collateral are poorly developed in Panama:⁹ they do not offer products suited to the collective nature of indigenous landholding, nor to the specific features of potential indigenous businesses. As a result, under the banking system's current requirements, indigenous entrepreneurs have limited access to productive credit. Moreover, the lack of information on the productive potential of the indigenous regions, compounded by geographic isolation and the disorganized nature of production, means that the banks have little incentive to develop financial products with specific characteristics for serving these communities. In particular, indigenous entrepreneurs face challenges relating to the lack of credit histories and reliable financial information, limited administrative and financial management capacity, lower levels and capacities for offering collateral, self-exclusion, and higher levels of informality. As a result, only three out of every 1,000 farmers in indigenous regions have access to finance, compared to 24 out of every 1,000 in the rest of the country,¹⁰ and the response of the indigenous population to business opportunities is limited.
- 1.6 **There is a shortage of investment in productive infrastructure in the indigenous regions and territories.** The shortfall in public investment (in social and economic services) per capita among the population living in the five indigenous regions,¹¹ compared to the rest of the country's population, is calculated as a ratio of 1 to 2.35.¹² These significant investment gaps are compounded by problems in completing works in indigenous territories, due to the high costs of construction in remote locations and limited accessibility, which can discourage contractors from competing. Between 2014 and 2019, roughly 36.8% of public calls for tenders for infrastructure works in indigenous regions attracted no bids or were canceled, compared to 23% in the provinces of Panamá and Panamá Oeste.¹³ For this reason, the PNDIPI has made it one of its priority objectives to develop and improve productive infrastructure in indigenous territories, so as to help boost the incomes of indigenous entrepreneurs.
- 1.7 **Productive potential and indigenous entrepreneurship.** The productive initiatives of the various peoples are varied and include different sectors: forestry, (Emberá, Wounaan), agriculture (coffee, cocoa, coconut and banana, among the Ngäbe, Buglé and Guna), fishing (Guna, Wounaan) and community and

⁹ In the past, indigenous economies of Latin America were financed with mechanisms based on income from the land (granting of long-term usufruct for a property against payment of capital or an annual fee. At the end of the term, the property was returned to its owner). At the end of the 19th century, these mechanisms fell into disuse, as indigenous lands were privatized. Fundación Diálogo. *La Renta de la Tierra en los Andes Bolivianos*. Consultant report. IDB. La Paz, 2007.

¹⁰ Agricultural Census in Panama, 2010/2011.

¹¹ The information available in the country on the population living in the indigenous territories is limited to the indigenous regions. With IDB support, MINGOB is preparing a map of public investment by territory and community, which will serve as the basis for taking a more comprehensive view of the situation.

¹² Calculated using expenditure data for all government institutions by territorial division (including the five indigenous regions) of the Ministry of Economy and Finance and the Office of the Comptroller General of the Republic for 2014 (table 3243-04). Public expenditure per capita for the indigenous regions in that year was US\$426, including 20% from conditional transfers, versus US\$1,028 representing public expenditure per capita outside the indigenous regions during the same period.

¹³ Data available at the Panamanian procurement website of the Public Procurement Bureau. Infrastructure works include services for paving or resurfacing highways and roads.

nature-based tourism (Guna, Ngäbe, Emberá, Wounaan). However, they tend to be of small scale, and they are not backed by any solid business track record. The economic pillar of the PNDIPI calls for supporting indigenous business initiatives in the territories.

- 1.8 **Articulating indigenous economies with the market in Panama.** Indigenous economies in Panama combine traditional economies based on reciprocity and redistribution alongside the market economy. Traditional economies focus on food security, laying the basis for community subsistence, while interaction with the market is limited primarily to: (i) labor performed outside the indigenous regions and territories; (ii) agricultural surpluses; (iii) fishing; (iv) handicraft and tourism activities; and (v) natural resource extraction. At this incipient stage of development, indigenous entrepreneurship is not taking advantage of the significant social capital and assets of indigenous peoples.
- 1.9 **Lack of access to technical assistance allowing indigenous entrepreneurs to adopt systems of innovation and technology with a sustainable vision.** Indigenous entrepreneurs have limited access to technical assistance for building capacities in terms of enhancing productivity, business management, marketing, and the adoption of new technologies. Only 10.3% of indigenous ventures receive business technical assistance for adopting sustainable production systems and/or new technologies.¹⁴ The programs now being offered for productive and business training do not take into account the cultural characteristics of the indigenous population, which possesses sustainable productive knowledge and practices. International experience shows that there are four key factors to achieving successful indigenous economic development: (i) decisions must be taken by the community, in line with its traditions and customs; (ii) there must be reinforced governance; (iii) development strategies must start from peoples' worldview and their views on governance and must respect their categories of cultural uses of the land; and (iv) decisions must be taken for the long term (sustainability).
- 1.10 **IDB experience and lessons learned.** The design of this program took into account the lessons learned from various programs financed by the Bank. The midterm evaluation of the program for "Access to Credit in Rural Productive Chains" (NI-L1080, loan 3042/BL-NI) shows that the use of public trust funds has been a key factor in extending financing to business projects that could not tap into the local banking system for financing. The Indigenous Business Development Support Program – PRODEI (PN-T1032, ATN/JO-10773-PN) helped to ready a number of initiatives and produced some lessons learned, including the need to have a dedicated financial mechanism and to include resources for investment in productive infrastructure for scaling up indigenous ventures. According to the PRODEI final report, although 92% of beneficiary firms developed a business plan articulated with the market, the mechanism for financing the activities needed for business development, external to the program, came too late to support the sustainability of the businesses. In addition, the IDB has experience in promoting indigenous entrepreneurship through the "Indigenous Development and Promotion Program" (CH-L1105, loan 3693/OC-CH), approved in 2016, from which a number

¹⁴ Agricultural Census 2011. This figure is considered a proxy, as it includes only the agricultural sector.

of lessons have been drawn and used in the design of this operation,¹⁵ such as the need to: (i) involve the banking system from the outset of the operation; (ii) ensure adequate resources for the structuring of entrepreneurial projects; (iii) complement entrepreneurial projects with productive infrastructure; and (iv) include preinvestment funding. Lastly, this operation includes a works execution mechanism where it is the organized communities that determine priorities and carry out the works, based on successful experience with the operating model using executing units under the FONCODES III Program (Program to Support Operations of the Compensation and Social Development Fund, PE-0193, loan 1421/OC-PE).

- 1.11 This program will help to boost incomes for indigenous peoples, by: (i) expanding access to financial services for indigenous entrepreneurs; (ii) building productive infrastructure in the indigenous regions and territories to help indigenous companies link up with value chains; and (iii) providing nonfinancial services, such as ongoing training and technical assistance to indigenous businesses, accompanied by preinvestment.
- 1.12 **Rationale.** This program will address business initiatives proposed by companies or organizations of indigenous peoples. According to MINGOB records (2019) there are 22 indigenous organizations established as legal entities. According to data from the Panamanian Autonomous Cooperative Institute, there are 41 active indigenous cooperatives with a total of 2,023 members. Taking into account the indigenous companies already established (see paragraph 1.4), the cooperatives, the indigenous organizations established as legal entities, and the recognized collective lands, the program has a universe of 1,397 potential beneficiaries for Component 1. Based on the guidelines for the economic pillar of the PNDIPI, and in coordination with MINGOB and the CNPI, during program preparation a sample was compiled of [indigenous business projects](#) with unmet demand for financial services, as well as productive infrastructure. In particular, for Component 1, a total target population of 32 business initiatives was estimated, of which seven would be joint ventures, 22 would be indigenous enterprises, and 3 of the existing 18 rural savings banks would be involved. The estimated value for the financing demand identified is US\$21 million. In this way, the resources provided through this component will help to meet 47% of the previously identified financing needs. In addition, the program will be open to receiving proposals for productive infrastructure projects located in the indigenous regions and territories: these cover a universe of 44,718 households (2010 population census) with at least one indigenous entrepreneur and representing more than 178,000 individuals. Thus, there is broad scope for implementing the intervention financed by the program.

¹⁵ The National Bank of Panama (BNP) was involved in program preparation from the outset: not only will the BNP be responsible for administering the trust fund for granting loans and guarantees, it will also serve on the program's Steering and Technical Committees. The dimensioning of Component 3 will ensure sufficient resources for structuring the entrepreneurial projects and will include preinvestment funds.

- 1.13 Through the identification¹⁶ and construction of productive infrastructure with ethno-engineering elements, the program will help to boost the incomes of indigenous entrepreneurs by increasing the numbers using suitable productive infrastructure in the indigenous regions and territories. The works selection process will favor infrastructure projects that will help to: (i) reduce travel costs and times; (ii) enhance access to markets for indigenous entrepreneurs; (iii) increase the number of tourists; (iv) reduce the number of workdays lost through lack of accessibility resulting from rainfall and flooding; and (v) reduce agricultural production losses by ensuring proper storage of products. In addition, the new standards for the management of infrastructure works by organized communities will help to narrow the public investment shortfall and enhance the effectiveness of public investments in the indigenous regions and territories.
- 1.14 **Coordination with other donors.** This program will complement a World Bank loan approved in June 2018, which focuses on the pillars of governance and human capital within the PNDIPI. In addition to its thematic complementarity, coordination of activities between the two programs is reflected in the execution mechanism: both will be executed using the same program coordination unit (PCU) created by MINGOB and, as appropriate, consideration will be given to using the same program management firm to carry out the processes of tendering, contracting and supervising works under the PNDIPI. At the present time, the selection process is under way for this program management firm, through an international call for proposals issued by the World Bank, and the contract is expected to be signed by June 2019. The PCU will have staff devoted exclusively to executing the program and will have its own mechanisms for monitoring the program and other management instruments. In addition, MINGOB has a program executed with the Food and Agriculture Organization (FAO) that promotes agricultural projects.
- 1.15 **Synergies with other Bank operations.** This program is complemented and coordinated with other Bank operations¹⁷ that are being pursued in one or other of the country's 12 indigenous territories in the education, transportation, rural electrification, productive development, and tourism sectors. This increase in public investment in schools, bridges, electric power, and tourism financed by the IDB will contribute to the sustainability of the businesses promoted by the program.

¹⁶ During program preparation, a sample was compiled of productive infrastructure projects with a predetermined menu. The 14 projects in the sample were prioritized by the indigenous authorities of each territory and presented to the IDB between October 2018 and January 2019. The sample includes 12 small-scale projects and two larger projects that are considered strategic for boosting incomes.

¹⁷ The Gender and Diversity Division (SCL/GDI) team responsible for this operation coordinates all IDB actions in Panama's indigenous regions and territories. Specifically, for this program, there is geographic coordination and/or articulation of actions in: (i) construction of schools PN-L1143, loan 4357/OC-PN (Program for Improving the Efficiency and Quality of the Education Sector); (ii) construction of a highway in the Ngäbe-Buglé indigenous regions financed with PN-L1147, loan 4561/OC-PN (Support for the Development of Territorial Connectivity in the Central and Western Region of Panama); and (iii) calls for business proposals financed with PN-L1153, loan 4689/OC-PN (Support for Productive Development through Human Capital), which will be publicized in the regions and territories, and measures for rural electrification and support for tourism ventures in indigenous territories.

- 1.16 **The Panamanian Government's Strategic Plan 2015-2019** is designed to "improve competitiveness and favor social inclusion in the context of a sustainable and inclusive development model." Its objectives are to: improve people's living conditions, foster inclusion, and reduce territorial asymmetries through actions geared to expanding the coverage and quality of basic social services. To meet the objectives of the strategic plan, and in a manner aligned with United Nations Sustainable Development Goals 1, 8, and 10, which call for ending poverty, promoting economic growth and reducing inequality, what is needed is a program that will promote indigenous entrepreneurship and boost productive investment in indigenous territories.
- 1.17 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the development challenges of: (i) productivity and innovation through the provision of productive infrastructure; and (ii) social inclusion and equality as measured by relative poverty, as the program is expected to boost access to finance for indigenous entrepreneurs. The program is aligned with the crosscutting area of diversity and gender, as the beneficiary population will be entirely indigenous and the program will include actions that are socially and culturally tailored to their cultural characteristics, for example using their decision-making processes (indigenous assemblies and authorities) for the selection of projects, and including ethno-engineering designs for the infrastructure works. In addition, it includes actions aimed at women, and as a result is expected to increase the average income of female entrepreneurs in indigenous regions and territories. In addition, it will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) with its country development outcome indicators: micro, small, and medium-sized enterprises that have received nonfinancial support; micro, small, and medium-sized enterprises that have been financed; beneficiaries with improved access to formal financial services; and farmers with improved access to agricultural services and investments.
- 1.18 The program is consistent with the Country Strategy with Panama 2015-2019 (document GN-2838) and is aligned with the strategic objective of improving the delivery of basic services to people living in poverty. It is also aligned with the current country strategy's crosscutting area of gender and diversity (paragraph 1.32). As well, it is aligned with the Gender and Diversity Sector Framework (document GN-2800-8), in its first dimension of success, namely "indigenous peoples have access to human capital services and quality infrastructure," with its line of action (iii), "expand coverage of basic infrastructure services to indigenous and Afro-descendant households, with special attention to the cultural appropriateness of the investment," and in its fifth dimension: "indigenous peoples have better labor market outcomes (participation and quality of employment), as well as greater opportunities for entrepreneurship," with its line of action (vi), identification of business models within a framework of development with identity, that will allow indigenous peoples to capitalize and reaffirm their cultural and natural resources." The program is also consistent with the Support to SMEs and Financial Access/Supervision Sector Framework (document GN-2768-7) and the Tourism Sector Framework (document GN-2779-7), in its second dimension of success (capturing economic benefits from tourism for the

benefit of the local population and vulnerable groups). The operation is included in the 2019 Operational Program Report (document GN-2948).

B. Objectives, components, and cost

- 1.19 The program's **objective** is to help boost incomes of indigenous entrepreneurs through access to finance, the provision of productive infrastructure, and ongoing technical assistance for indigenous businesses. The specific objectives are to: (i) increase access to finance for indigenous entrepreneurs; (ii) reduce the investment shortfall in productive infrastructure in the indigenous regions and territories; and (iii) expand access to nonfinancial services such as training and ongoing technical assistance for indigenous entrepreneurs, accompanied by preinvestment.
- 1.20 The program will finance the scaling-up of productive and business activities requested by indigenous entrepreneurs that comply with the sociocultural protocol (paragraph 1.24). The investment in program-financed infrastructure works will be prioritized in community assemblies within the context of the PNDIPI and presented to the program by the indigenous authorities. That infrastructure must demonstrate an economic benefit and will be limited to small-scale productive infrastructure that can be executed by the beneficiary communities themselves or strategic projects (of larger scope) that are critical to obtaining higher incomes for people living in the territory (paragraph 1.29).
- 1.21 **Targeting.** The program will be pursued in the 12 indigenous territories of the country, with priority to the interventions contained in the PNDIPI and requested by the indigenous peoples.
- 1.22 To achieve these objectives, the program is divided into the following components:
- 1.23 **Component 1. Access to finance for indigenous enterprises (US\$15 million).** This component will create new financial instruments tailored to the reality and financial needs of indigenous entrepreneurs. Through a trust in administration, the program will finance guarantees and loans of three kinds: (i) for projects presented by joint ventures between private investors and indigenous companies (more than US\$500,000); (ii) for projects of between US\$10,000 and US\$500,000 presented by indigenous entrepreneurs or legal persons (cooperatives, associations, communities etc.); and (iii) for projects presented by rural savings banks, communal banks, and small savings and loan cooperatives formed by the communities that lend to indigenous entrepreneurs. With this support, those entities will be able to make loans of up to US\$10,000. In addition, the program will finance the BNP's costs of administering the trust fund. The financial products developed by the program will carry the same interest rate conditions as those offered by the financial system. The differences with respect to currently available financial instruments lie in the following aspects: (i) maturities and eligible collateral (which may be supply contracts and, in the case of fixed assets, a pledge of this asset); and (ii) the support provided under Component 3 for the structuring of business proposals, currently nonexistent in the country.

- 1.24 **Eligibility criteria.** To access resources under financing lines (i) and (ii) will require compliance with the program's sociocultural protocol¹⁸ accepted by the communities and endorsed by the traditional authorities. In addition, the project must be technically, environmentally, financially, and economically viable under the terms detailed in the Program Operating Manual. To this end, two committees will be established: (i) a Steering Committee that will be responsible for issuing calls for proposals and will act as an initial filter for the applications presented (paragraphs 1.33 and 3.3); and (ii) a Technical Committee, which will verify the sociocultural, environmental, technical, economic, and financial feasibility of the business projects for which financing is sought (paragraph 3.3). The business proposal must have a business plan and must demonstrate its sustainability and profitability under market conditions. To access line (iii) of the financing from rural savings banks, those institutions must fulfill the conditions established in the Program Operating Manual.
- 1.25 In addition, in order to access the resources under this component, all beneficiaries must meet the following requirements. In the case of large-scale business projects involving joint ventures between indigenous initiatives and private initiatives, whether operating as consortia, ad hoc corporations, or temporary mergers of market-savvy businesses that are hooked up with legitimately constituted indigenous entities, they must: (i) be legally constituted, (ii) demonstrate market links, either through a joint venture or an association spelled out in a contract between the parties, (iii) be exclusively production-related proposals, (iv) comply with the environmental and social requirements established in the program Environmental and Social Management Framework (ESMF), and (v) be restricted to communities in the country's indigenous territories.
- 1.26 For cooperative structures, such as indigenous producers associations, indigenous cooperatives, or indigenous producer groups, they must: (i) be legally constituted, (ii) demonstrate market links (either through a sales agreement or contract) and be profitable and sustainable, (iii) the companies must be at least 60% indigenous owned, (iv) be certified by the indigenous authority as to their compliance with the percentage of indigenous ownership and other conditions stipulated in the program's sociocultural protocol, (v) meet the environmental and social requirements established in the program's ESMF, and (vi) present an investment plan (profitable, sustainable, and consistent with credit criteria in all respects).
- 1.27 In order for rural savings banks to be able to intermediate project funds under this component, they must: (i) have been constituted for at least three years and demonstrate solvency; (ii) have the backing of the traditional authority of the territory where they are located (which will function as a guarantee for repayment of the financing granted); (iii) present to the program the project that they will finance, requesting resources from the trust fund for intermediaries (with the credit risk of the final beneficiary to be assumed by the intermediary); and (iv) comply with the environmental and social requirements established in the program's ESMF.

¹⁸ The sociocultural protocol is a process with conditions that potential financial support recipients (Component 1) must meet to ensure the sociocultural feasibility of the business project. The presentation of the business projects must carry the consent of the indigenous authorities of the territory.

- 1.28 The BNP, which is a publicly owned bank and the financial arm of the Government of Panama, will be the trustee for the resources of this component, in the form of a public fund in administration (paragraphs 3.2 and 3.3). The trust fund contract will detail the eligibility criteria that beneficiaries must meet in order to receive financing from the program, as mentioned in the previous paragraphs. In addition, the BNP will provide credit analysis services in support of the approval of loans (which must also comply with program guidelines) as well as in their recovery (collection management).
- 1.29 **Component 2. Construction and rehabilitation of productive infrastructure (US\$15 million).** This component will finance: (i) small works of productive infrastructure that demonstrate an economic benefit in the country's indigenous regions and territories; (ii) strategic (larger scale) productive infrastructure works that will help to boost incomes in the communities; (iii) technical assistance in management and administration to be provided to community-based indigenous organizations (CBIOs) in charge of executing these small-scale works; and (iv) training for indigenous persons in construction services and works maintenance.
- 1.30 This component will be executed by the program coordination unit (PCU) established within MINGOB (paragraph 3.4). The small-scale works will be carried out with the participation of the organized community through the CBIOs, which are organized communities, legalized and approved for the construction or contracting of works, and which have a Board consisting of a president, a secretary, a treasurer, and a financial overseer [*fiscal*]. In the case of community organizations already established in the indigenous congresses or councils, these must have a team dedicated exclusively to the program-financed works, and they must comply with the provisions of the Program Operating Manual. In the case of larger scale or strategic infrastructure projects (paragraph 1.20), these may be contracted by the executing agency in line with Bank policies for the procurement of works and services. Each item of works will include measures relating to road safety, sustainability, and environmental and social management plans, as required.
- 1.31 **Eligibility criteria.** All works must comply with the eligibility criteria established in the Program Operating Manual, which include economic criteria as well as criteria relating to supervision and accountability and will be prioritized by the communities themselves and presented to the program by the indigenous authorities, who will guarantee their sustainability. The scope of the program has been limited to small-scale infrastructure that is critical for supporting the indigenous business projects that are to be financed and/or that are included in the territorial development plans and will help to boost the incomes of indigenous entrepreneurs (paragraph 1.13). The works must meet the conditions established in the [Program Operating Manual](#). Among other things, they must: (i) be requested by the communities from MINGOB, with the approval of the traditional authorities of the territory where they are to be constructed, indicating the community-based indigenous organization that will be created or that is proposed for their execution; (ii) present a letter of commitment from the traditional authorities for maintenance of the works by their beneficiary communities; (iii) be associated with productive initiatives in the territory; (iv) take the form of productive infrastructure works included on the program menu (small access roads to the villages or places of product origin, footbridges, footpaths and horse paths, river and sea wharves,

warehouses, multiuse chambers, tourism infrastructure etc.); (v) comply with the design and construction rules and standards established by the country's pertinent policy bodies; and (vi) meet the environmental and social requirements established in the ESMF, such as the exclusion of works that, by their nature, are classified as category A under the Bank's Environmental and Social Safeguard Policies. In addition, works that involve involuntary resettlement, or that entail significant negative impacts on indigenous peoples and on critical natural habitat, will be deemed ineligible.

1.32 Component 3. Capacity-building and technical assistance (US\$7.8 million).

This component will finance: (i) training, technical assistance, and coaching for indigenous entrepreneurs and business projects, preinvestment activities (technical, economic, social, and environmental studies) for initiatives that so require and that are being considered for financing by the program under Components 1 and 2; (ii) entrepreneurship training for representatives of the cooperative structures and/or indigenous entrepreneurs; (iii) technical assistance for the rural savings banks and communal banks; (iv) financial education courses for indigenous women and young people; (v) microenterprise development courses for indigenous women and young people; (vi) an information system with maps reflecting cultural uses in the program's beneficiary indigenous territories; (vii) a communication strategy and activities; and (viii) the establishment of the CBIOS. MINGOB will issue a call for proposals, which will be transmitted via the governance mechanisms of the traditional authorities of the program's beneficiary indigenous communities, in order for indigenous entrepreneurs to present their proposals.

1.33 The Program Steering Committee (paragraph 3.3) will make an initial selection from the proposals received, which will be analyzed to determine their eligibility for training funds and for support in structuring entrepreneurial projects. The business proposals selected will receive the AFOPROIN (Support for Formulation of High-impact Indigenous Project), i.e. they may access funds earmarked for structuring of the project from the technical, environmental, economic, financial, and sociocultural viewpoints. The [sociocultural protocol](#) includes seven steps: (i) prior, free, and informed consent; (ii) mapping of cultural uses of the land; (iii) territorial land use planning; (iv) "economic life" plan; (v) structuring of economic governance arrangements; (vi) legal pluralism with the participation of traditional authorities in the collection system; and (vii) analysis of sociocultural impacts.

1.34 Project management, monitoring, evaluation, and audits (US\$2.2 million).

The borrower will finance management of the program by the Ministry of the Interior, via the PCU and will shoulder a portion of the administration costs. The loan proceeds will cover the remainder of the cost of the administration and the contracting of services for the survey of the final line,¹⁹ the midterm and final evaluations, audits, and communication. This component may finance tools to support MINGOB in conducting technical studies and procuring software licenses and equipment for the planning and prioritization of investments.

¹⁹ Technical cooperation resources will be provided for surveying the program baseline and for designing the program's computerized monitoring system.

C. Key results indicators

- 1.35 **Expected impacts and outcomes.** The program will be assessed against the increase generated in the incomes of the country's indigenous entrepreneurs. The expected outcomes are the following: (i) an improvement in the rate of access to finance for indigenous entrepreneurs; (ii) leveraging of at least an additional US\$17.6 million in financing transactions by financial intermediaries through the line of guarantees, targeted at indigenous enterprises; (iii) an increase in the number of beneficiary joint ventures that achieve the capacity to sell in their markets (line 1 of Component 1); (iv) an increase in the number of companies or associations that boost their sales through line 2 of Component 1; (v) an increase in the average monthly income of beneficiary entrepreneurs under lines 2 and 3 of Component 1; (vi) an improvement in the incomes of indigenous women entrepreneurs, thanks to the tourism infrastructure; (vii) a reduction in the rate of abandonment or cancellation of infrastructure works projects in indigenous regions and territories; (viii) an increase in the annual sales of products stored in the productive infrastructure; (ix) an increase in the average annual incomes lost due to inaccessibility caused by flooding during the rainy season; and (x) an increase in the percentage of indigenous entrepreneurs who adopt sustainable production systems and/or new technologies.
- 1.36 **Economic analysis.** An economic analysis of the main interventions planned under the program was conducted, estimating the potential benefits to be obtained, on the basis of a sample of indigenous community projects under the various components. To this end, expected returns were extrapolated for each monetary unit invested, and these were contrasted with the costs anticipated in the program. The results suggest that, if the established targets are met, and considering a conservative scenario, the program will present a current net social value of US\$26,627,170 and an internal rate of return of 22.6%. The social discount rate used for this evaluation was 12% (see [Project Economic Analysis](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This project has an estimated total cost of US\$43 million and will be financed through a multiple-works investment loan of US\$40 million from the Ordinary Capital and a local contribution of US\$3 million (Table 1). The disbursement period for the program will be six years (Table 2). The term for initiating the works (Component 2) will be 36 months, and the term for committing resources under Component 1 will be five years. The multiple-works modality is justified by the following considerations, among others: (i) the works are physically similar to each other, but independent; and (ii) its feasibility does not depend on executing any particular number of works projects. A representative sample is at hand, corresponding to 30.67% of the total. The eligibility criteria for the various works in the sample are described in paragraph 1.31.

Table 1. Estimated program costs (US\$ thousands)

Components	IDB	Local	Total	%
Component I. Access to finance for indigenous enterprises	15,000	0	15,000	34.88
Component II. Construction and rehabilitation of productive infrastructure	15,000	0	15,000	34.88
Component III. Capacity-building and technical assistance	7,800	0	7,800	18.14
Project management, monitoring, evaluation, and audits	2,200	3,000	5,200	12.09
Total	40,000	3,000	43,000	100.00

Table 2. Disbursement schedule

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Grand total
Component I	525,000	1,525,000	5,225,000	4,025,000	2,825,000	875,000	15,000,000
Component II	2,050,000	1,707,087	2,398,950	2,906,706	3,311,317	2,582,965	14,957,025
Component III	1,075,000	2,705,000	2,055,000	1,440,000	325,000	200,000	7,800,000
Management and supervision	350,000	362,913	321,050	428,294	338,683	442,035	2,242,975
Projected disbursements PN-L1157	4,000,000	6,300,000	10,000,000	8,800,000	6,800,000	4,100,000	40,000,000

- 2.2 **Sample of infrastructure projects and eligibility criteria.** The projects in the sample are representative of the productive infrastructure works that the program will finance. They include footpaths, horse paths, pedestrian bridges, wharves, tourism facilities, warehouses, etc. The project sample covers populations in 12 indigenous territories (for more information, see [Sample of Program Infrastructure Works](#)). The works projects to be financed must meet the selection criteria spelled out in the Program Operating Manual (see paragraph 3.1 for the works eligibility criteria and note 17 for information on the sample).

B. Environmental and social risks

- 2.3 **Socioenvironmental considerations.** The program is a multiple-works operation classified as Category B, in accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), and accordingly the social and environmental impacts and risks are rated as low to moderate, of short duration, localized, and readily manageable with mitigation measures that are standard for this type of infrastructure and activities. Those measures are detailed in the Environmental and Social Management Plan (ESMP). There is also a sociocultural analysis, pursuant to the Indigenous Peoples Policy (OP-765), which seeks to guarantee the sustainability of cultural uses in the territories, together with sustainable land management for the infrastructure works, together with a sociocultural protocol for the financing of loans and/or guarantees under Component 1. The potential impacts include: intervention in protected areas, erosion and generation of waste, increased traffic, generation of dust and noise, and nuisances to local residents and pedestrians. The program will not entail any

physical displacement of people, nor any expropriations or significant impacts on livelihoods, and there is no potential for converting or degrading critical natural habitats to any significant extent. Such impacts will be grounds for exclusion from the program.

- 2.4 Pursuant to OP-703, Directive B.5 on social and environmental evaluation requirements during the program preparation stage, the following instruments were prepared: an Environmental and Social Management Framework (ESMF) and an Environmental and Social Analysis with Environmental and Social Management Plans, which includes a sociocultural analysis for activities under Component 1 and for the projects in the Component 2 sample. Ten consultations have been conducted, covering all 14 projects in the sample, for the purpose of obtaining the consent of the respective [communities](#). There is a confirmed interest in participating under the CBIO modality, and the need for technical assistance in carrying out the works has been stressed. The consultations report includes the minutes of the events and the lists of participants.

C. Fiduciary risks

- 2.5 During the design of the program, the team conducted an analysis of the institutional capacity of the executing agency, and no significant fiduciary risks were detected. On the basis of the risk evaluation, two medium-level risks were identified in the fiduciary processes: (i) inadequate allocation of counterpart resources and financing for program activities; and (ii) the fact that staff have little familiarity with IDB policies regarding fiduciary management. To mitigate these risks it has been agreed that: (i) the PCU will keep the Ministry of Economy and Finance and MINGOB's Administration and Finance Division (DAF) informed in advance as to progress in execution and any future needs for funds, so that these can be included in budgetary planning, and the PCU and the Planning Office will receive close monitoring and support in their requests for budgetary allocations; and (ii) staff with a knowledge of the fiduciary policies of MINGOB's Planning Office will be hired, and training courses on fiduciary policies will be provided.

D. Other risks and key issues

- 2.6 During the risks workshop held with the executing agency, two medium-level risks were identified, along with two high-level risks relating to **public management and governance**: (i) as the program will begin execution under newly installed government authorities, there may be a change in priorities with respect to the appointment of key positions for the program within the PCU; (ii) the banking system could prove reluctant to use the indigenous guarantee from the BNP; (iii) the incoming government could face challenges in handling the logistics dynamics and the complex decision-making processes in the context of the National Council of Indigenous Peoples (CNPI); and (iv) the BNP might attach little importance to granting financial services, and this could affect the pace of execution of Component 1 and the final outcomes of the operation. To mitigate these risks, the following measures have been agreed: (i) persons appointed to key positions in the PCU must have a profile agreed with the Bank; (ii) awareness-raising workshops and a communications campaign will be conducted with the private banking system on the characteristics and advantages of the program's guarantee; (iii) MINGOB has developed regulations for the functioning of the CNPI, and the executing agency can assign funds under the

heading of program management for the functioning of the CNPI; and (iv) payment to the BNP for its financial analysis of potential projects and management of loan recoveries will include a fixed cost component and a variable cost component, which will be disbursed as those services are provided. A further high-level risk identified has to do with the lack of capacity for social and environmental management: this risk will be mitigated by hiring an environmental specialist and a social specialist to work with the PCU and the Technical Committee.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 MINGOB will be the executing agency for the program, using the program coordination unit (PCU) constituted within MINGOB's Planning Office to execute both the program and the World Bank project. For program execution the PCU, which will have a legal, technical, and budget team, will be reinforced with the hiring of a coordinator, a financial specialist, a procurement specialist, an environmental specialist, and a social specialist, who will be devoted to program execution. The PCU will interact with the operating units of the Ministry and with other government entities, as necessary, taking advantage of the existing institutional structure. The PCU may contract the services of the program management firm to effect the planned purchases and contracts, as well as to supervise the works (see paragraph 1.14).
- 3.2 The resources under Component 1 will be administered by the BNP, as fiduciary agent, through a trust in administration that will be constituted exclusively for purposes of the program. As program executing agency, MINGOB will sign the trust contract for administering resources with the BNP, on behalf of the State. That contract will establish the responsibilities of the BNP as well as the obligations of MINGOB, as trustee.
- 3.3 The trust fund will manage the resources devoted to guarantees and loans. To this end, the program has a credit and guarantee manual that will ensure efficient execution of the resources in eligible projects, in line with the program's eligibility criteria. Trust fund operations will be supported by a Program Steering Committee²⁰ that will issue calls for proposals to support the structuring of business projects and will serve as an initial filter for the applications submitted. The BNP will be in charge of monitoring the program portfolio of loans and guarantees. The trust fund will also have a Technical Committee to approve loan and guarantee proposals and to instruct the trustee with respect to disbursing funds for the proposals approved.
- 3.4 The PCU of MINGOB will execute the activities under Components 2 and 3, carrying out the planned purchases and contracts and supervising the works. The small-scale infrastructure works (Component 2) financed by the program and located in indigenous regions and territories, many of which are difficult to access, will be implemented with the participation of the CBIOS, which will have the legal

²⁰ The Steering Committee provides advice, monitoring and assistance in defining the strategic guidelines of the program and has representatives of MINGOB, the CNPI and the BNP. The committee may invite other participants and/or experts from the sector (e.g. AMPYME, MIDA, MICI, and the Chamber of Commerce) to sit as advisory but nonvoting members.

standing to sign the agreement with the executing agency and to perform any procurement planned under the project they propose. The planning of the works and their bidding processes will follow a territorial logic in order to minimize transaction costs. Each CBIO will carry out various works within its territory, and there will be territories that, due to their size, will require more than one CBIO. This planning and execution mechanism will help improve the efficiency of the works in the indigenous regions and territories and will ensure a higher rate of completion of works in those areas. In addition, it will produce other benefits.²¹ Those works prioritized by the indigenous assemblies and their authorities that turn out to be of larger scale and that are considered strategic for increasing incomes in the territory (paragraphs 1.20 and 1.31) may be contracted out by the executing agency in accordance with Bank policies for the procurement of works and goods. Although many of the works under this component are related to business projects under Component 1, their execution is independent and is scheduled for the first years of program execution. Components 1, 2, and 3 will be executed separately, as their pace of execution will be different. Component 3 will support the preparation of proposals to be financed by Component 1, and it is therefore expected that the bulk of execution under Component 1 will begin as of the second year. With respect to Component 2, for which preliminary designs are in hand, it is expected that work could begin as of the first year of execution.

- 3.5 A CBIO is a nonprofit indigenous communal organization that receives financing from the program for the construction or rehabilitation of productive infrastructure: it is to be constituted as such and to be established as a legal entity. The CBIO will have the power to present and execute projects for its own benefit or for the benefit of the social group for which it has been constituted. The CBIOs will have the legal capacity to contract, intervene in technical, administrative, and judicial proceedings, and perform any acts necessary for the execution and rendering of accounts of infrastructure projects financed by the program. The Program Operating Manual will describe the functions and responsibilities of the CBIO and the accountability and supervision mechanism for the works, all within the framework established in the IDB's Procurement and Consultant Policies, with due regard to the principles of economy, transparency, and efficiency (paragraph 3.8).
- 3.6 MINGOB will sign with the CBIOs a contract providing for the delivery of funds for construction of the works presented by the same community and revised by the PCU (in its different technical, economic, and other dimensions). That contract will establish the terms and conditions of this relationship, including the responsibility for rendering accounts and for supervising and maintaining the works. The CBIOs will not only have effective community participation but will also be supported by external professional services (project manager, resident engineer, and supervisor) that will be contracted by the CBIO and must comply with the agreed quality and prequalification requirements. Implementation of the works includes three levels of supervision: one involves the resident engineer, who will live in the community where the works are being executed; a supervisor within the territory of the CBIO;

²¹ The benefits of using this mechanism include: (i) greater participation by indigenous people will strengthen the sustainability and maintenance of the works; (ii) capacity-building in communities constituting the CBIO will facilitate operation and maintenance and will reinforce social oversight of projects; and (iii) use of local materials and local labor will mean lower costs for the works than other execution modalities.

and a general supervisor at the central level, within the executing agency. To facilitate identification of this support in the territories, the executing agency will issue a call for expressions of interest and prequalification. In addition, the PCU will have staff responsible for supervising the works.

- 3.7 **Procurement management.** Works and goods will be procured and consulting services selected in accordance with policies for the procurement of works and goods financed by the IDB (document GN-2349-9) and with the policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9), both of which were approved in March 2011. The Bank's Board of Executive Directors approved (document GN-2538-11) the use of framework agreement subsystems up to the threshold established for national competitive bidding (US\$250,000) as well as mechanisms for smaller purchases of up to US\$50,000, which may vary as the Bank approves higher levels of use. The [Procurement Plan](#) contains a breakdown of the procurement transactions to be conducted during execution.
- 3.8 **Community participation in contracts.** When a specific project is being executed by a community organization (see paragraphs 3.4, 3.5, and 3.6), goods, works and services will be procured in accordance with provisions relating to appropriate use of loan funds, the eligibility of goods, works and services, and the principles of economy, transparency, and efficiency.
- 3.9 **Disbursements.** Loan disbursements will take the form of advances of funds, calibrated in light of financial programming for a period of up to 180 days. The Bank may issue a new advance of funds once 80% of the previously disbursed funds has been accounted for. Payments may be made directly to suppliers, or as reimbursement of outlays already made.
- 3.10 To ensure that the executing agency has adequate staff to execute the program, with the capacity to comply with Bank policies, the following **special contractual conditions precedent to the first disbursement have been agreed:** (i) the **Program Operating Manual is approved and in effect, and includes as an annex the Environmental and Social Management Plan for projects in the sample and the Environmental and Social Management Framework of the program, under terms previously agreed between the executing agency and the Bank;** and (ii) the **program coordination unit has been reinforced with the hiring of a coordinator, a financial specialist, a procurement specialist, an environmental specialist, and a social specialist.**
- 3.11 As Components 1 and 2 have different mechanisms and paces of execution, and given the need to ensure implementation of all the Environmental and Social Management Plans pursuant to OP-703 and OP-765, which includes compliance with national legislation, the following **special contractual conditions of execution** have been agreed: (i) prior to disbursement of the funds under Component 1 of the program, the trust fund contract with the BNP, for administration of the resources of this component, will have been signed and will be in force; and (ii) prior to the commitment and disbursement of funds to a CBIO to execute works financed under Component 2 of the program, a contract will have been signed between the executing agency and the CBIO for execution of the works in question, detailing among other aspects the terms on which the resources will be transferred, the rendering of accounts, and other obligations of the parties.

B. Summary of arrangements for monitoring results

- 3.12 **Monitoring.** The executing agency, through the PCU, will be responsible for project monitoring and evaluation. The executing agency will use the Results Matrix and the outcome and output indicators defined in the project monitoring report (PMR), together with the monitoring tools established in the [monitoring and evaluation plan](#) as the principal elements for supporting the program. The executing agency will coordinate with the BNP and the Public Procurement Bureau for compiling the data needed to monitor the program. The executing agency will provide all the necessary information it has so that the IDB can prepare the project completion report (PCR), which will be produced six months after the last disbursement. Periodic monitoring meetings will also be held.
- 3.13 **Evaluation.** To measure the causal effects of the program and to conduct a sociocultural evaluation of the program, information will need to be collected from households located in indigenous regions and territories and from indigenous entrepreneurs in Panama, as a baseline, before the program is launched. The survey for this baseline will be financed through technical cooperation. A midterm evaluation will be performed 30 months after the date of the first disbursement, or when 50% of the loan has been disbursed, whichever occurs first. The evaluation will measure progress against program objectives and its results, based on the Results Matrix, in order to identify any corrective action that needs to be taken. In addition, a final survey will be conducted in the sixth year of execution, together with an ex post cost-benefit analysis using information on costs and benefits reported during the life of the program.
- 3.14 **Reports.** The program will be monitored through semiannual reports prepared by the executing agency and submitted to the IDB within 60 calendar days after the close of each six-month period. Those reports will measure progress against the outcome indicators (see Results Matrix) and fulfillment of the eligibility criteria at the program and project level.
- 3.15 **Information.** The borrower and the executing agency will compile and keep all available information, indicators, and parameters for preparing the PCR and any ex post evaluations that they or the IDB wish to conduct.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity	
Country Development Results Indicators	-Micro / small / medium enterprises financed (#)* -Micro / small / medium enterprises provided with non-financial support (#)* -Beneficiaries of improved access to formal financial services (#)* -Farmers with improved access to agricultural services and investments (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2838	Improve the provision of basic services to the population in poverty
Country Program Results Matrix	GN-2948	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	7.7	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	1.7	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	8.5	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.0	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	Yes	The TC PN-T1147 "Reducing the poverty gap: Improving the quality of services via cultural adaptation and a territorial focus" financed key studies that served to consolidate the country dialogue on important issues for the indigenous groups (for example, ethnographies of the villages Guna, Ngäbe and Emberá) and supported workshops with the counterpart on territorial development with identity considerations. Furthermore, it financed studies for preparing the loan, like the demand analysis of indigenous enterprises and the design of ethno-engineering works.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

For the indigenous people of Panama high poverty gaps persist (79.6% versus 41.4% for the rural population versus 11% of urban poverty). Furthermore, the average income for indigenous entrepreneurs is 4.83 times lower than for non-indigenous entrepreneurs. The collective modality of land holdings and the resulting lack of collateral causes an important barrier for indigenous people to access financing. The lack of credit history and geographical isolation also disincentivizes the lending and design of financial products for these communities. In fact, only 3 of every 1,000 inhabitants of indigenous agricultural producers have financing as contrasted to 24 of every 1,000 for the rest of such producers. Also, the gap in per capita public investment for the indigenous population and the rest of the country is estimated at a ratio of 1 to 2.35. Thus, one of the government's goals is to improve productive infrastructure within indigenous territories. In this context, the project's specific objectives are: (i) increase access to finance of indigenous enterprises; (ii) decrease the investment deficit in productive infrastructure in indigenous counties and territories; and (iii) increase access to non-financial services such as technical assistance for indigenous entrepreneurs. One of the mechanisms of the program is the provision of guarantees and loans for three types of investments – joint ventures between private investors and indigenous enterprises; investment projects by indigenous entrepreneurs or entities; and microcredit for this population. Non-traditional guarantees will be accepted under the loans. Furthermore, the project has a multiple works component for the construction and rehabilitation of productive infrastructure in indigenous lands of three types – connectivity (like docks and bridges); improved storage for the sale of agriculture production; and the development of touristic centers in the benefit of indigenous craftswomen. The Results Matrix captures the program's benefits like for example improvements in: the percent of indigenous entrepreneurs with access to finance; the joint ventures that manage to sell to market; the average income of indigenous beneficiaries; the increase in sales due to the better storage of agricultural production; and the decline in lost income due to inaccessibility of trajectories during the rainy season; among others. The cost-benefit analysis shows the project is an overall net benefit to society. At closure, a before and after comparison of results will be employed.

RESULTS MATRIX

Project objective:	The program's objective is to help boost the incomes of indigenous entrepreneurs through access to finance, the provision of productive infrastructure, and ongoing technical assistance for indigenous businesses. The specific objectives are to: (i) increase access to finance for indigenous entrepreneurs; (ii) reduce the investment shortfall in productive infrastructure in the indigenous regions (<i>comarcas</i>) and territories; and (iii) expand access to nonfinancial services such as training and ongoing technical assistance for indigenous entrepreneurs, accompanied by preinvestment.
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline ¹	Baseline year	2020	2021	2022	2023	2024	2025	Means of verification ²
Average monthly income of indigenous entrepreneurs in Panama	U.S. dollars	226.4	2017			283			340	Impact Evaluation Survey

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Baseline year	2020	2021	2022	2023	2024	2025	Total	Means of verification
Indigenous entrepreneurs with access to finance in indigenous territories	Rate per 1,000	TBD ³	2011			TBD+5%			TBD+15%	TBD+15%	Impact Evaluation Survey ⁴
Enterprises and/or associations that increase their sales thanks to line 2	Number	0	2019			12			10	22	MINGOB information system

¹ For those cases where there is no representative information available for the target territories, data for more highly aggregated geographic zones embracing the target territory will be used. The values for the impact indicator baseline and target will be revised in accordance with the impact evaluation methodology ([required link 2](#)), financed from technical cooperation resources.

² Technical cooperation resources will be available to develop the Information System for the National Indigenous Development Plan, thus making it possible to capture detailed data from the infrastructure and investment projects financed. Consultations and reports of this information system will be used to monitor PN-L1157 and to generate the means of verification for the indicators in the results matrix.

³ The indicator will be updated prior to the eligibility date + 60 days.

⁴ MINGOB will be responsible for developing the Impact Evaluation Survey.

Indicators	Unit of measure	Baseline	Baseline year	2020	2021	2022	2023	2024	2025	Total	Means of verification
Average monthly income of entrepreneurs thanks to lines 2 and 3	U.S. dollars	226.4	2017			283			340	340	Impact Evaluation Survey
Abandonment or cancellation of infrastructure works in the indigenous regions and territories	Percent (%)	36.8	2019			5			5	5	MINGOB information system
Average monthly incomes of women entrepreneurs in indigenous regions and territories benefiting from productive tourism infrastructure built by the program	U.S. dollars	113.9	2017			215			330	330	Impact Evaluation Survey
Annual sales of output stored in the productive infrastructure built by the program	U.S. dollars	40,000	2019			200,000			200,000	200,000	Impact Evaluation Survey
Indigenous enterprises that adopt sustainable production systems and/or new technologies supported by the program	Percent	TBD	2011			TBD+50%			TBD+100%	TBD+100%	Impact Evaluation Survey

FOR MORE DETAILS SEE OUTPUT INDICATORS

Outputs	Unit	Baseline (2019)	2020	2021	2022	2023	2024	2025	Final target	Means of verification
Component I. Access to finance for indigenous enterprises (US\$15 million)										
1.1. Amount needed to guarantee loans for large-scale projects allocated to the program's guarantee line	US\$ millions	0	0	0.5	0.8	1.5	1.6		4.4	<p>This indicator measures the annual allocation of program funds to the guarantee line. The amount granted at the output level is used as the indicator, because the idea is to promote the offerings of IFIs and to have micro, small, and medium-sized enterprises take up these funds.</p> <p>At the outcome level, the rate of indigenous companies' access to finance is included. In addition to this indicator, and beyond the matrix, the following milestones will be monitored:⁵</p> <p>Milestone 1: Number of micro, small, and medium-sized enterprises or productive units obtaining loans with the guarantee line.</p> <p>Milestone 2: Number of female-headed micro, small, and medium-sized enterprises or productive units benefiting from the guarantee line.</p> <p>Report based on MINGOB information systems.</p>

⁵ For further details see Table I.B. of the [monitoring and evaluation plan](#).

Outputs	Unit	Baseline (2019)	2020	2021	2022	2023	2024	2025	Final target	Means of verification
1.2 Projects of cooperative structures and entrepreneurs financed under the program's credit line	Projects financed	0		6	6	5	5		22	Report based on MINGOB information systems. Milestone: Number of female-headed micro, small, and medium-sized enterprises or productive units benefiting from the credit line.
1.3 Intermediary financial institutions receiving loans under the program's microcredit line	Financial institutions	0		1	1	1			3	Report based on MINGOB information systems. Milestone 1: Number of female-headed micro, small, and medium-sized enterprises or productive units benefiting from the microcredit line. Milestone 2: Percentage of funds invested by the microcredit line in entrepreneurial ventures.
1.4 Preliminary investment projects analyzed and approved (financial due diligence)	Preliminary projects approved	0		9	7	7	6		29	Report based on MINGOB information systems.
Component II. Construction and rehabilitation of productive infrastructure (US\$15 million)										
2.1 Community-based indigenous organizations (CBIO) up and running.	CBIOs	0	6	5	3	1	1	1	17	It is assumed that a CBIO will begin functioning when it is established as a legal entity. Report based on MINGOB information systems.
2.2 Land, river, and sea transportation works completed (bridges, roads, paths, and wharves).	Works completed	0	6	4	6	7	9	8	40	Report based on MINGOB information systems.

Outputs	Unit	Baseline (2019)	2020	2021	2022	2023	2024	2025	Final target	Means of verification
2.3 Constructions (warehouses, multiuse facilities) completed	Constructions completed	0	4	4	4	7	7	4	30	Report based on MINGOB information systems. Milestone 1: Number of male indigenous entrepreneurs benefiting from works and constructions. Milestone 2: Number of female indigenous entrepreneurs benefiting from works and constructions. Milestone 3: Number of youth indigenous entrepreneurs benefiting from works and constructions.
2.4 Indigenous persons have received technical assistance in management and administration of the CBIOS	Persons	0	70	70	70	70	70	70	70	Report based on MINGOB information systems. Milestone: Number of women.
2.5 Indigenous persons trained in construction and maintenance services for the works	Persons	0	250	200	150	100			700	Report based on MINGOB information systems. Milestone: Number of women.
Component III. Capacity-building and technical assistance (US\$7.8 million)										
3.1 Business training completed for representatives of cooperative structures and/or indigenous entrepreneurs	Persons	0	25	50	25	25	25		150	Completing business training entails preparation of preliminary investment projects. Report based on MINGOB information systems.
3.2 Projects structured and ready for financing under the program's guarantee and credit line, with technical assistance and monitoring.	Projects	0		9	7	7	6		29	Project structuring requires 1. Compliance with the sociocultural protocol; 2. Completion of the business plan; and 3. A technical, economic, and financial prefeasibility analysis.

Outputs	Unit	Baseline (2019)	2020	2021	2022	2023	2024	2025	Final target	Means of verification
										An average of US\$50,000 per project is calculated for monitoring costs, with a shortlist of 50 projects, of which 29 will be monitored. Report based on MINGOB information systems.
3.3 Preinvestment studies completed	Studies	0		1	1	1			3	These funds will be invested in the technical designs of investment projects with high potential. Report based on MINGOB information systems.
3.4 Technical assistance to rural savings banks and communal banks	Communal banks	0	2	2	2				6	Consultants from the Universidad de Asociación Bancaria (IBI Universidad Bancaria) will be contracted to give a special course for managers of rural savings banks and communal banks. There will also be outlays for hardware and software for the rural savings banks and communal banks. Report based on MINGOB information systems.
3.5 Financial education course for indigenous women and youth completed	Women	0		400	500	500	500	500	2,400	Consultants will be contracted from the Asociación Bancaria for a financial education program in the indigenous regions and territories. Report based on MINGOB information systems.

Outputs	Unit	Baseline (2019)	2020	2021	2022	2023	2024	2025	Final target	Means of verification
3.6 Microenterprise development course for indigenous women and youth completed	Women	0		400	500	500	500	500	2,400	<p>This course will be delivered by the Micro, Small and Medium-Sized Enterprise Authority (AMPYME) through a cooperation agreement for the microenterprise education program in the indigenous regions.</p> <p>Report based on MINGOB information systems.</p>
3.7 Information systems in operation with cultural use maps of indigenous territories benefiting from the program	System	0				1			1	<p>Consultants will be hired for the design of the system, paid with funds from PN-T1189 and financing for the IT system with funds from PN-L1157. Support from Tommy Guardia and involvement of the National Indigenous Council will be enlisted to ensure sustainability and maintenance of the system.</p> <p>Report with recommendations, use rules for sites of cultural significance in the 12 territories, updated image bank, and georeferenced information system .</p>
3.8 Communication strategy implemented	Communication strategy				1				1	<p>Consulting services for materials preparation, printing, and distribution.</p> <p>Report based on MINGOB information systems.</p>

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Panama
Project number: PN-L1157
Name: Indigenous Entrepreneurship and Financial Inclusion Program
Executing agency: Ministry of the Interior
Prepared by: Ezequiel Cambiasso and David Ochoa (FMP/CPN)

I. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 1.1 The borrower will be the Republic of Panama, and the executing agency for the program will be the Ministry of the Interior (MINGOB), through the Planning Office.
- 1.2 The Planning Office has not executed operations with the Inter-American Development Bank in the past, but it has prior experience in executing investment projects with the United Nations Development Programme and is currently executing an operation with the World Bank.
- 1.3 The Planning Office does not have access to country fiduciary systems. Consequently, all fiduciary activities are performed in a centralized manner within MINGOB, by the Administration and Finance Division (DAF).

II. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 2.1 During the design of the program, an institutional capacity analysis of the executing agency was performed and found no significant fiduciary risks. On the basis of the risk evaluation conducted, one medium risk was identified in the fiduciary processes, due to:
 - (i) Inadequate allocation of counterpart funds and financing for program activities. To mitigate this risk, the PCU will keep the Ministry of Economy and Finance and MINGOB's Administration and Finance Division informed in advance as to progress in execution and any future needs for funds, so that these can be included in budgetary planning, and the PCU and the Planning Office will receive close monitoring and support in their requests for budgetary allocations.
 - (ii) Staff have little familiarity in working with IDB policies on fiduciary management. To mitigate this risk, staff with knowledge of fiduciary policies will be hired for MINGOB's Planning Office. Similarly, training courses will be offered on fiduciary policies.

III. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 3.1 Following are the agreements and requirements that must be considered in the special provisions:
- a. The provisions of the Financial Management Guide for IDB-financed Projects (document OP-273-6) will be applied. Accordingly: (i) audited financial statements for the project will be requested on an annual basis from an independent audit firm acceptable to the Bank, within 120 days after the close of each fiscal year or the date of the last disbursement; (ii) requests for advances of funds will be based on financial forecasts for up to 180 days; and (iii) and a new advance may be requested when 80% of the cumulative resources pending justification has been accounted for.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The fiduciary agreements and requirements for procurement set out the provisions applicable to the execution of all procurement planned under the program.

A. Procurement execution

- 4.2 The Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) will be applied.
- 4.3 Contracting of works and procurement of goods and nonconsulting services: International competitive bidding (ICB) will be implemented using the standard bidding documents issued by the Bank. Tenders subject to national competitive bidding (NCB) or to shopping will use the models defined for this operation by the Bank. The project sector specialist is responsible for reviewing the technical specifications of procurement during preparation of the selection processes.
- 4.4 Selection and contracting of consultants: Consulting service contracts generated under the project will be implemented using the standard request for proposals issued by the Bank. The project sector specialist will be responsible for reviewing the terms of reference for hiring consulting services.
- 4.5 The executing agency may engage a program management firm (PMF). The PMF is currently being selected through international competitive bidding following World Bank policies for the execution of a World Bank loan that will support the National Plan for Integral Development of Indigenous Peoples (PNIDIPI). The PMF is expected to be contracted by June 2019.
- 4.6 Selection of individual consultants: Selection will take account of their qualifications to perform the work, based on a comparison of the qualifications of at least three candidates.
- 4.7 Use of country procurement systems. The Bank's Board of Executive Directors approved the use of the framework agreement subsystems (document GN-2538-11), up to the threshold established for national competitive bidding – US\$250,000 – and for the shopping mechanisms for up to US\$50,000. These thresholds may vary as the Bank approves higher use levels. The [Procurement Plan](#)

for the operation, and its updates, will indicate which contracts will be executed through the approved country procurement systems.

- 4.8 Community participation in procurement. Small-scale infrastructure works (Component 2) financed by the program and located in indigenous regions and territories, many of which are difficult to access, will be implemented with the participation of the community-based indigenous organizations, which will have the legal standing to sign the agreement with the executing agency and to perform any purchases or contracting planned under the project they propose. When a specific project is executed by a community organization, the goods, works, and services will be procured in accordance with the provisions governing the appropriate use of loan resources, the eligibility of goods, works, and services, and the principles of economy, transparency, and efficiency.
- 4.9 Domestic preference: Not applicable.
- 4.10 Procurement plan. The Procurement Plan Execution System will be used, or any updated version that succeeds it, as the electronic system for monitoring procurement.

B. Table of thresholds (US\$)

Works			Goods			Consulting services	
ICB	NCB/Shopping	Shopping for complex works	ICB	NCB/shopping	Shopping for complex goods	International	National
3,000,000 or more	Over 250,000 and under 3,000,000	Under 250,000	250,000 or more	Over 50,000 and under 250,000	Under 50,000	Over 200,000	200,000 or less

C. Main procurements

Activity	Type of process	Estimated amount (US\$)
Execution of projects by the community	Community participation: principles of economy, transparency, and efficiency	15,000,000

D. Procurement supervision

- 4.11 All ICB processes and direct contracting of goods, works, and nonconsulting services will be subject to prior review. The selection of consulting firms in amounts exceeding US\$200,000, and direct selections, will be reviewed ex ante. For the remaining contracts, the type of revision to be used will be determined case-by-case in the Procurement Plan.

E. Special provisions

- 4.12 None.

F. Records and files

- 4.13 The executing agency will keep up-to-date records and files, in proper order, so that they can be reviewed by the Bank in accordance with the following guidelines:
- a. The file with procurement documentation must take the form of a single file or spreadsheet, which will make it possible to differentiate between the processes financed with funds from the local contribution and those financed with nonprogram resources.
 - b. Documents will be kept in proper order, compiled, and numbered, so that they can be clearly and immediately located and identified, and will be available at any time for purposes of review by the Bank and the auditors.

V. FINANCIAL MANAGEMENT

A. Programming and budget

- 5.1 MINGOB will include the funds needed to execute the project, within the amount of its draft budget, and will present it to the Ministry of Economy and Finance (MEF) prior to 30 April of each year. The MEF will formulate and control the budget and must present, before 31 July of each fiscal year, a proposal to the National Assembly, which is responsible for approving it, along with any budgetary increase. The budget is annual by nature and includes all public sector investments, incomes, and outflows. The budget law for fiscal year 2019 will create the SINIP codes and lines for IDB financing and local support. Initially, the entire annual budget will be requested under the local contribution, and once the loan is approved the executing agency must request substitution of the financing source.

B. Accountability and information systems

- 5.2 In order to modernize government management, the Government of Panama, through the Ministry of Economy and Finance and the National Accounts Directorate (DNC), has implemented the ISTMO ("Integration and Technological Solutions of the Operations Management Model") system. The PEU must take the necessary steps with the DNC to obtain its respective users, training, and parameters for the system in order to manage the budget, commit expenditures, and make payments through the system. The system is currently being assessed to determine whether it can be used in Bank-financed projects, or whether a parallel system must be used.
- 5.3 Accounting will be governed by the rules issued by the Office of the Comptroller General of the Republic (CGR), which are based on International Public Sector Accounting Standards (IPSAS).

C. Disbursements and cash flow

- 5.4 Panama has approved legislation establishing use of the concept of the Single Treasury Account (CUT), and its implementation has begun in the central government. In 2019 there was an assessment of the CUT and its relationship with implementation of the ISTMO to determine whether it can be used in IDB-financed projects.
- 5.5 The IDB will transfer the funds to a program-exclusive account in a financial entity, which will be opened by the Ministry of the Interior. Disbursements will be made as advances covering liquidity needs in accordance with the financial plan for the next

180 days. A new advance may be requested when 80% of the cumulative amount pending justification has been accounted for. Payments to suppliers may also be reimbursed or made directly.

D. Internal control and internal audit

- 5.6 As prior control is exercised by the CGR, the internal control and internal audit systems of the government institutions are weak. They rely on the control work of the CGR, instead of having their own effective processes and controls, for which reason those systems are not considered adequate for exercising the required project control function.

E. External control and reports

- 5.7 The CGR has focused its prior control activity on the application of State assets, with little emphasis on its audit function. Moreover, when it comes to participating in administrative processes through prior control, it does not have the necessary independence to conduct audits, for which reason it is deemed not to have the capacity to conduct independent external control of the program.
- 5.8 Audited annual financial statements for the project will be requested from an independent audit firm acceptable to the Bank, to be submitted within 120 days following the close of each fiscal year or the date of the last disbursement.

F. Financial supervision plan

- 5.9 Financial supervision will focus on the reports of the auditors mentioned in the previous paragraph, and the supporting documentation for the disbursements will be reviewed ex post by the auditors when performing the audits or during any financial inspection visits they may undertake.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Panama. Loan ____/OC-PN to the Republic of Panama
Indigenous Entrepreneurship and Financial Inclusion Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Indigenous Entrepreneurship and Financial Inclusion Program. Such financing will be for the amount of up to US\$40,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2019)