

# PROGRAM FOR POVERTY ALLEVIATION AND COMMUNITY DEVELOPMENT

(PN-0111)

## EXECUTIVE SUMMARY

<b>Borrower</b>	Republic of Panama	
<b>Executing agency:</b>	Emergency Social Fund (ESF)	
<b>Amount and source:</b>	IDB:	US\$48.85 million (OC)
	Local:	<u>US\$17.5 million</u>
	Total:	US\$66.35 million
<b>Financial terms and conditions:</b>	Amortization period:	30 years
	Grace period:	4.5 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollar (Single Currency Facility)
<b>Objectives:</b>	<p>The general aim of the program is to maximize the positive impact of investments to improve conditions among poor communities in Panama and encourage them to participate in their own development. The specific aims are to: (i) introduce a transparent resource allocation process, based on poverty criteria; (ii) develop a community planning methodology for resources to be used in accordance with community priorities; (iii) broaden the menu of activities eligible for funding in order to reflect communities' concerns and interests; and (iv) decentralize the ESF line process to bring it more into step with local realities.</p>	
<b>Description:</b>	<p>The program has two components: (i) local investments and (ii) community development. The first component will distribute social investment funds according to a transparent formula based on the percentage of people living in poverty in each municipio. The investment menu will have two main categories: (a) basic social infrastructure projects, and (b) essential social services, both determined through a process of community prioritization.</p> <p>The second component aims to develop capacity locally as that investments respond to local priorities. To achieve this, two lines of</p>	

action will be pursued. Firstly, community promotion and planning activities will draw up annual investment plans, giving details of agreements among local stakeholders on the investment priorities for the locality concerned. Secondly, the program will encourage decentralization of the ESF production line to the provinces, in order to better serve communities in the execution of projects.

**Relationship of project in Bank's country and sector strategy:**

The Bank's operational guidelines for decentralization and municipal development in Region 2 countries define three nuclei of intervention and specify strategic actions for each: (i) cities of over 200,000 inhabitants, (ii) emerging urban centers of at least 20,000 inhabitants, and (iii) the multitude of small, predominantly rural municipios, which act as the link between the rural economy and local consumer markets.\* As most of Panama's poor fall to the third category, community development is an essential element for fighting poverty – even more so when poverty is concentrated geographically in rural areas where the local government presence is virtually nil. Community development enables viable investments to be made and contributes to overcoming extreme poverty, insofar as the communities themselves assume comprehensive ownership of their projects.

**Environmental and social review:**

Paragraphs 4.9 and 4.11 give detailed results of the environmental quality assessment and improvements made on the basis of its recommendations, together with details of the environmental quality measures that new projects will be subject to. The project's social and ethnic impact focuses on increased participation by beneficiary communities in defining their priority problems and possible solutions. To that end, the participatory planning guidelines will ensure the broadest possible participation by beneficiary communities, including neglected minorities. In indigenous communities, participatory processes will be designed to take account of the particular interactions of each specific ethnic group (see paragraphs 2.1, 2.11 to 2.18, and 3.5 to 3.12).

**Benefits:**

The program aims to fight poverty and address the welfare disparities that exist in Panama. The ESF gives priority to social infrastructure investments that attend to the basic needs of poor people and target social programs to help vulnerable groups. The program's social impact is expected to be highly effective, since (i) it will target investments to the poorest communities in Panama, identified through a poverty map; and (ii) it will develop local capacities for communities to assume ownership of decision-making processes that affect them, and so improve the relevance of the projects funded.

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\* Subnational Finance and Development: A Draft Operational Strategy for Region 2. IDB, 1998.

The implementation of a **new targeting scheme** to pre-allocate funds according to the incidence of poverty will ensure that the program has a high redistributive impact. The allocation of funds to municipios on the basis of their share of the population living in poverty will guarantee higher per capita investments in municipios with a higher percentage of poor people. For example, average per capita investment in the poorest group of districts will be over four times the investment level in districts with a lower incidence of poverty.

**Risks:**

**Community planning** will require an institutional transition from a promotion methodology with a pre-established menu to a more flexible operating framework. Greater community participation in the identification of projects and resource planning, together with the introduction of new and innovative alternatives, is likely to delay project development at the start of the program. To mitigate this risk, the program will introduce the new scheme gradually in the first year of execution, to ensure the institution does not lose momentum and to avoid sacrificing genuine participation for the sake of accelerating processes. Activities to be carried out under this framework are well defined and will be detailed in the program's operations manual.

There is a risk that **those living in extreme poverty** will not benefit from the program as expected, because in general they have less capacity to draft project proposals and have a weaker voice in the community. The technical assistance provided to communities by the ESF, and the proactive role of promoters, will be very important in ensuring that these communities share adequately in the benefits of the program. The program will be open to communities whose average income is below the poverty line.

**Special contractual clauses:****Special conditions precedent to disbursement:**

- a. The borrower must present evidence that the program's Operating Regulations are in force, in accordance with the terms previously agreed with the Bank. The Operating Regulations will include the program's general participatory planning guidelines together with guidelines corresponding to indigenous communities.
- b. The borrower must present evidence of having hired consultants to carry out the program's concurrent evaluation, under the terms previously agreed with the Bank.

- c. The borrower must present evidence of having hired an independent firm of auditors, acceptable to the Bank, to carry out the program's concurrent audit, in accordance with the terms previously agreed with the Bank.
- d. The borrower is to have presented a report specifying the types, amounts and conditions under which the local contribution made by communities participating in the program can be considered as counterpart funds.

**Other conditions:**

- a. Annual reviews (see paragraph 3.27).
- b. Concurrent and impact evaluations (see paragraph 3.29).
- c. Special disbursement to initiate program activities (see paragraph 3.23).

**Poverty-targeting and social sector classification:**

This operation qualifies as a poverty reducing and social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment.

**Exceptions to Bank policy:**

None.

**Procurement:**

The procurement of goods and services, construction work, and the hiring of consulting services will be carried out in conformity with standard Bank procedures. International competitive bidding will be required for: (i) construction work costing US\$1 million or more; (ii) the procurement of goods worth US\$250,000 or more, and (iii) the hiring of consulting services costing US\$200,000 or more. Goods, works and consulting services for smaller amounts will be subject to the procedures contained in the annex to the procurement plan; these will be incorporated as Annex D to the loan agreement and are summarized in paragraph 3.18. The executing agency may not award any new works contracts to a contractor group when the value of contracts awarded to that group totals US\$1 million or more, except when the new contract is awarded by public tender.

## **I. FRAME OF REFERENCE**

### **A. Conditions of welfare and social spending**

- 1.1 Panama has a relatively high level of human development, especially compared to other Central American countries.<sup>1</sup> Per capita GDP is close to the regional average; life expectancy increased from 70 years in 1980 to 74 in 1997, and infant mortality had fallen to 22 per thousand live births by 1997. Educational indicators have also improved, and the adult literacy rate is relatively high (91.1%).
- 1.2 This progress in social indicators is partly explained by one of the region's highest levels of social spending (21% of GDP), which has been growing at 6.3% annually over the last five years. Empirical evidence shows, however, that the benefits of this spending have not been equitably distributed. For example, poor families represent 43% of the school age population, but only receive 28% of educational spending.<sup>2</sup> Expenditure is also regressive in geographical terms: only half the school age population live in urban areas, yet they receive two thirds of total spending. The same pattern is repeated in nearly all other social sectors.

### **B. Highly concentrated and severe poverty**

- 1.3 Overall levels of poverty are relatively moderate, but it is highly concentrated in rural and indigenous areas: of the 37% of Panamanians living below the poverty line, 77% live in rural areas.<sup>3</sup> This means not only that the chances of being poor are higher in rural zones, but most poor people live there.<sup>4</sup> Although indigenous groups only account for about 7.6% of the country's total population, 86% of them live in extreme poverty. In other words, their consumption is below the minimum needed for an adequate calorie intake.
- 1.4 Not only is poverty concentrated in rural and indigenous areas, but it is also more severe there. The poverty gap is an indicator of *how poor* people are, calculated by measuring how far households are on average from the poverty line.<sup>5</sup> Among the urban poor, the gap between the general poverty line and average consumption is

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<sup>1</sup> Panama's Human Development Index (HDI) is 0.79; among Central American countries only Costa Rica is higher at 0.80 (UNDP).

<sup>2</sup> Panama. Poverty Assessment. Priorities and Strategies for Poverty Reduction. (1999) The World Bank.

<sup>3</sup> All poverty figures are based on household consumption rather than income. Consumption is considered a better measure of welfare, as, among other things, it does not suffer from the under-declaration problems that the income measure has.

<sup>4</sup> The trend in Latin American countries means that although the chances of being poor are higher in the rural sector, a larger number of poor people live in urban areas.

<sup>5</sup> The poverty line was estimated on the basis of equivalent adult calorie requirements and the level of household consumption. A general poverty line was set at 905 balboas per person per year, and the indigence line at 519 balboas per capita per year.

3.9%, but it widens to 32.1% among the rural poor and to 66.1% among poor people living in indigenous areas.

- 1.5 The concentration and depth of poverty in Panama reflects the country's highly unequal distribution of income and consumption. Panama has one of the most unequal patterns of consumption in the region, with a Gini coefficient of 0.60 – on a par with Brazil. The severity of inequality is seen in the share of total consumption accounted for by the poorest quintile (3%) compared with the fourth quintile (8%), and also in the jump in consumption displayed by the richest quintile (53%) compared to the preceding quintile (22%).

**Table I-1**  
**Summary of poverty in Panama**

	Number of poor people (thousands)	Distribution of total population (%)	Distribution of poor population (%)	Incidence of poverty (%)	Depth of poverty index	Number of indigent people (thousands)	Distribution of indigent people (%)	Rate of indigence (%)
<b>Total</b>	<b>1,020.1</b>	<b>100</b>	<b>100</b>	<b>37.3</b>	<b>16.4</b>	<b>514.8</b>	<b>100</b>	<b>18.8</b>
<b>Area</b>								
Urban	232	55.6	22.7	15.3	3.9	47.3	9.2	3.1
Rural-total	788.1	44.4	77.3	64.9	32.1	467.5	90.8	38.5
Non-indigenous rural	591.1	36.9	57.9	58.7	25.2	289.2	56.2	28.7
Indigenous rural	197	7.6	19.3	95.4	66.1	178.3	34.6	86.4
<b>Geographic Zone</b>								
Metropolitan Region	314.8	Total 54	30.9	Total 21		96.9	18.8	6.6
Excl. Panama-San Miguelito	224.7	Total 26 Urban 14 Rural 12	Total 22 Urban 5 Rural 17	Total 32 Urban 14 Rural 54				
Central Region	268.7	Total 20 Urban 6 Rural 14	Total 26 Urban 3 Rural 17	Total 48 Urban 19 Rural 61		133	25.8	23.8
Western Region	181.4	Total 15 Urban 7 Rural 8	Total 18 Urban 5 Rural 13	Total 44 Urban 29 Rural 56		67.9	13.2	16.3
Indigenous areas	197	8	19.3	95.4		178.3	34.6	86.4
Areas of difficult access	58.3	3	5.7	77.9		38.8	7.5	51.8

Source: Profile and Characteristics of the Poor in Panama, MEF/UNDP, 1999. Surveys of Living Standards, 1997, Social Policy Division, Ministry of Economy and Finance.

- 1.6 Although the overall incidence of poverty in indigenous areas is high, it varies between ethnic groups. Classified by language, poverty among indigenous groups in general is 84%. The Ngabe Buglé group has the highest percentage of people living in poverty and also the largest population. Geographic location is also a significant factor in indigenous poverty, with the poverty rate among indigenous people living outside their respective lands almost half what it is inside them. In fact, poverty among the Kuna population living outside their territory is about equal to the national average of 34%. This disparity is partly explained by the geographical isolation of indigenous areas.

**Table I-2**  
**Incidence of poverty by ethnicity and geographical location**

Non-indigenous	Indigenous	Ngabe-Buglé	Emberá-Wounan	Kuna	Indigenous – living inside territories	Indigenous – living outside territories
32	84	92	80	65	96	53

Source: Panama. Poverty Assessment, World Bank, 1999.

## **C. The country's poverty reduction strategy**

### **1. Strategy proposal and 100-day Social Agenda**

- 1.7 The previous government's poverty reduction strategy "*Nuevo Enfoque Estratégico Frente a la Pobreza*" was aimed at increasing the share of the benefits of economic and social growth, enjoyed by poor people and at-risk population groups. The strategy was firstly aimed at affording temporary protection to people who could potentially be left behind by the growth process, and secondly those who actually are excluded from it. The current Panamanian government (GOPN) has outlined a social agenda for its first 100 days, the content of which is consistent with the aims and elements of the previous approach and stresses the importance of targeting government investment on the country's extremely poor populations, through processes of dialog with the community at large.
- 1.8 The specific aims of the "*Enfoque Estratégico*" were: (i) to improve the quality of life among the poor population, by guaranteeing adequate access to basic services of education, work training, healthcare, potable water, sanitation and electricity, and to highway and production infrastructure; and to strengthen programs for environmental protection and improved land access and tenure; (ii) to reallocate public-sector social spending in terms of programs, geographical areas and priority groups, in order to improve levels of equity, efficiency and effectiveness; (iii) to improve the impact of social spending on income distribution; and (iv) to mobilize communities, citizens and civil society to participate in activities aimed at reducing

poverty, through community, private enterprise and NGO participation in actions to bring services to poor communities.<sup>6</sup>

1.9 These objectives are realized in accordance with the following general guidelines.

- **Efficiency in social spending.** Resource allocation criteria will be redesigned on a performance basis, to give incentives for improved program efficiency. It is also hoped to simplify bureaucratic rules and procedures so as to expedite spending and provide timely responses.
- **Targeting of social spending on the poor.** The main policy instrument proposed for targeting expenditure on poor populations is the poverty map derived from the Standard of Living Survey carried out by the Ministry of Economic Planning and Policy (MIPPE) in 1997 (ENV-97). Use of the Map will enable resources to be distributed towards the sectors that are poorest in terms of family consumption rather than income.
- **Decentralization of spending.** The targeting policy is expected to produce more effective and efficient results if accompanied by a policy of State decentralization. A prerequisite for decentralization, however, is a strengthening of local governments and grassroots organizations through training and technical assistance programs.
- **Participation by communities, citizens and civil society.** Social policy in general, and especially policies to combat poverty, will only have their maximum effect if they allow beneficiaries to break away from a welfare approach and strengthen their own solidarity systems.

1.10 The Social Agenda recommends that all government action should be aimed at resolving the social problem. Priorities will be defined by the extent to which actions positively affect neglected populations. Communication, community participation and transparency are recommended as the *modus operandi*. Even more importantly, the agenda contains 10 social progress goals.

- To reduce infant undernutrition from 16% to 5% and indigenous undernutrition from 50% to 10%;
- Participatory democracy. To increase the direct impact of social investment and achieve greater efficiency through community participation;
- Social policy towards, and with indigenous people;

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<sup>6</sup> Nuevo Enfoque Estratégico frente a la Pobreza. 1998-2003. Cabinet Resolution N° 134. Official Gazette N° 23,635, September 22, 1998.



- Decentralization and debureaucratization of social investment;
- Improving the living standards of poor people. Reduce extreme poverty by 3% per year;
- Employment and self-employment;
- Public health and social security. Strengthening of the primary care network;
- Improving the quality, equity and efficiency of education;
- Culture and sport;
- Environment, vulnerable groups and citizen safety.

1.11 Programs targeted on poor populations should be designed with these basic guidelines in mind. A minimum requirement for bringing the actions of the Emergency Social Fund (ESF) in line with this strategy is to target expenditure more efficiently and make community participation more active. In bringing these changes about, the ESF itself will need to be decentralized to bring it closer to community needs.

## **2. The Emergency Social Fund (ESF)**

1.12 The ESF was created in May 1990, as a temporary financial instrument to provide an immediate response to the basic needs of poor communities and to improve living standards among the most deprived sectors of the population. In 1996, its temporary mandate was extended indefinitely. In December 1994, the Bank approved a social investment program (854/OC-PN) to be executed by the ESF; community participation was limited to presenting projects and administering them once they had been approved by the ESF.

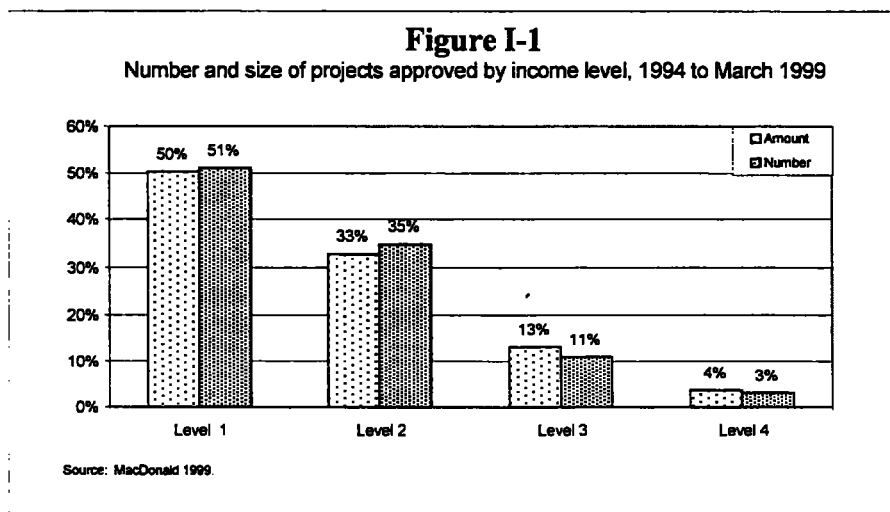
1.13 The Social Investment Program included a concurrent evaluation system, which greatly enhanced the development of the program, as the ESF was able to adapt and incorporate new procedures and criteria that led to highly efficient management. For example, although the operation included an assessment system, there was no funding for any other activity of institutional strengthening, and this made it difficult to implement assessment recommendations. However, subsequent evaluations showed that the ESF had sought extra funding to carry out the improvements recommended. The evaluation also states that the ESF has proved highly efficient in channeling resources and technical assistance to the poorest sectors (Figure I-1). (Webb, 1998).

1.14 The program's concurrent evaluation recommended introducing a system of community training to maintain and operate projects – activities not envisaged in

the original design. The ESF's Community Training Office, designed and gradually implemented the proposed system, covering almost 30% of funded projects by the midterm evaluation. The assessment specifically recommended improving training for the sustainability and maintenance of roads and aqueducts, as these were the most problematic areas. At the end of the program the results have been positive, and a recommendation has been made to use the balance of the loan resources in completing these activities (Webb, 1998).

#### a. Targeting

- 1.15 In the Social Investment Program (854-5/OC-PN), the ESF implemented a system of project targeting that used average community income as the main criterion for defining project eligibility. The system calculated a community's monthly per capita income, derived from the 1990 Population and Housing Census. Four levels of poverty were established: Level 1 (B\$0-B\$44), extreme poverty; Level 2 (B\$45-B\$88) poverty; Level 3 (B\$89-B\$132), near poverty; and Level 4 (B\$132+), non-poor. The program targeted resources on Levels 1 and 2, covering over one million inhabitants or 49% of the total population of the country. Populations that were close to the poverty line (Level 3) and those classified as nonpoor (Level 4) were eligible for investment under certain conditions (for example the presence of groups living in poverty who would benefit from the proposed project).
- 1.16 According to information supplied by the ESF, nearly 85% of projects funded by the IDB program between 1994-1999 benefited populations living in conditions of poverty or extreme poverty (Figure I-1). According to the second concurrent ESF evaluation, up to 1997 investments by province exceeded the target population percentage in four provinces and one region; and were below the target percentage in three provinces and one region (Webb, 1998).



- 1.17 As part of a World Bank loan, the ESF has just implemented a system of geographical targeting at the municipal level, based on a poverty map derived from the result of the ENV-97 and 1990 census data. This map indicates the likelihood of being poor in each municipio, and divides poverty incidence throughout the country into eight categories. The ESF allocates funds from the social infrastructure component for each municipio, based on their share of the poor population (calculated from the probability of being poor and the total population of the district). This targeting method guarantees higher per capita investment in municipios with a higher percentage of poor people, using total consumption as the poverty measure.
- 1.18 The extreme geographic concentration of poverty in Panama justifies a system of spatial targeting. Geographic targeting also helps redistribute resources towards the indigenous population, since most ethnic groups live within their respective territories.<sup>7</sup> The greater incidence of poverty among indigenous populations living in their respective communities reinforces this benefit.

#### **b. Community development**

- 1.19 Like the region's other social investment funds, the ESF's concept of community participation has been steadily evolving. Originally, it was thought important for the community to participate in identifying projects; but more recently the importance of community participation in project maintenance has been recognized, as a way of ensuring project sustainability.
- 1.20 The identification of projects is not a systematic process, in that communities do not prioritize their needs within a given budgetary scenario. In most cases, the ESF receives petitions through semi-informal channels, and these are "ratified" by the community when the ESF promoters arrive on site. This procedure has tended to exclude the beneficiaries themselves, and other local agents including municipios and neighborhood associations, from most of the decision-making related to the investment undertaken.
- 1.21 Administratively, the country is divided into (i) nine provinces with appointed Governors, (ii) 75 municipios led by elected mayors, and (iii) 588 *corregimientos* with elected leaders. In addition, there are four autonomous indigenous territories (*comarcas*) of provincial rank. Panama is one of the most centralized countries in Central America,<sup>8</sup> and municipios play a very minor role in the provision of

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<sup>7</sup> As much as 70% of the indigenous population live in their respective territories, with 19% living in urban zones and the rest living in nonindigenous rural areas. This pattern varies between indigenous groups. Nearly half of the Kuna and the Emberá-Wounan population live outside indigenous areas while 84% of the Ngobe-Buglé live inside their respective territory.

<sup>8</sup> Descentralización y Servicios Públicos Locales en Panamá. Draft Concept Paper. 1999 BID-RE2.

services; their jurisdiction is limited to activities of decoration, management of communal assets, festival activities and social welfare.

- 1.22 The Bank's operational guidelines for Region 2 countries in the field of decentralization and municipal development, defines three nuclei of intervention with action strategies for each one. Firstly, there are cities of over 200,000 inhabitants; secondly, settlements of 20,000 inhabitants or more, which are beginning to emerge as urban centers in their own right; and finally, there is a multitude of small and predominantly rural municipios that act as the link between the rural economy and local consumer markets.<sup>9</sup> Most of Panama's poor population lives in this third type of settlement.
- 1.23 When poverty is geographically concentrated in rural areas with a virtually non-existent local government presence, community development is an essential element in fighting it. Community development helps to make investments viable and contributes to overcoming extreme poverty, in that communities themselves assume full ownership of their projects.

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<sup>9</sup> Sub National Finance and Development: A Draft Operational Strategy for Region 2. IADB. 1998.

## II. THE PROGRAM, ITS COST AND FUNDING

### A. Objectives

- 2.1 The general aim of the program is to maximize the positive impact of investments to improve conditions among poor communities in Panama and encourage them to participate in their own development. The specific objectives are: (i) to introduce a transparent process of resource allocation, based on poverty criteria; (ii) to develop a community planning methodology for resources to be used in accordance with community priorities; (iii) to expand the menu of activities eligible for funding to reflect community concerns and interests; and (iv) to decentralize the ESF line process and bring it more in step with local needs.

### B. Components

#### 1. Local investment component (US\$47 million)

- 2.2 The program will finance basic social infrastructure and social service projects that reflect community concerns and interests. For this purpose, it is proposed to move from a predefined menu of eligible projects to a negative list specifying investments that cannot be financed due to their limited social benefit or lack of relevance to the program's basic aims (i.e. overcoming poverty, and local development). The opening up of the menu is an essential step in allowing communities to define the investments that really respond to local needs. There is abundant evidence that greater community participation in the decisions that affect them enhances the sustainability of the projects undertaken (PR-2249, IDB). Table II-1 summarizes the interests and concerns of Panamanian communities as expressed in the ENV-97 Community Survey. Although it is difficult to predict the mix of investments that communities will demand, it can be expected to vary widely according to the origin of the community.

**Table II-1**  
**Community priorities by geographic area**

RURAL AREAS	INDIGENOUS AREAS	URBAN AREAS
Transport, roads, electricity, telephones, potable water, health, work, education, housing, community centers, safety, crime, land titling, sanitary services, alcohol, drugs	Education, potable water, alcohol, drugs, transport, roads, health, housing, safety, crime, work, sanitary services, electricity, telephones, community centers	Safety, crime, transport, roads, work, sanitary services, potable water, community centers, housing, titling, alcohol, drugs, health, juvenile gangs, street lighting, telephones, garbage, education

Source: Panama. ENV-97. Community Questionnaire. Priorities according to frequency of mention.

- 2.3 The menu of eligible investments will be expanded to make it possible to undertake programs of high social content. As Table II-1 shows, any local development

program that aims to reduce poverty needs to consider that communities have serious social problems that it would be impossible to address with a menu limited to social infrastructure projects. For example, in indigenous communities there is clearly a high degree of undernutrition, and problems of violence and drugs in urban centers.

- 2.4 In the context of the World Bank loan, the ESF has been experimenting for three years now with social programs in support of at-risk groups, such as young people, children in difficult circumstances and indigenous populations. Most of these programs are executed through NGOs or private associations (as is the case with basic social infrastructure investment). The program will finance the integration of development and the execution of non-traditional programs of essential social services such as food programs and day care centers.
- 2.5 Within this new expanded menu concept, the ESF will not apply its list of pre-established projects. The local investment component will finance not only the costs of physical installations, but also equipment and technical assistance for training in maintenance, operation, environmental management and evaluation, among other things. A broad classification of investments is provided to illustrate the variety of projects that are eligible for funding (see FISDL, 1997).
  - a. **Social and economic infrastructure projects:** These include school repair, equipment, project-related training, repair of primary health centers, water supply, basic sanitation, rural electricity, containing walls, drainage, fords and fencing, day care centers, reforestation and rural roads, among other things.
  - b. **Priority community projects.** Programs for young people, children in difficult circumstances, anti-drug programs, citizen safety, child nourishment, nutrition, etc..
- 2.6 The negative menu denies funding for activities related to the following: housing, construction and repair of government buildings, public-sector wages, equipment for the public sector, micro-credit, vehicles, religious activities or buildings, or those affiliated to political parties, patron saint festivals, local lottery or gambling activities, weapons or other types of armament, high traffic volume highways and the opening of new rural roads.
- 2.7 The ESF will have a budget for hiring specialists to design the technical dimensions of the projects that get added to the current list. The technical criteria so developed will be included on the list of technical, environmental and cost-efficiency criteria used in evaluating the project cycle. The ESF will continue to conduct community training activities to maintain facilities built under the project so as to ensure a level of operation that is consistent with the service to be provided.

- 2.8 The program will allocate annual amounts of social investment at the geographical district level, using as a targeting mechanism the poverty map obtained from the ENV-97.<sup>10</sup> The smallest representative unit on the map is the district or municipio. Although resources are distributed *ex ante* at the municipal level, it is not the municipio itself but local and community planning institutions that will decide how to distribute these funds within the municipio and on what projects. The list of projects to be financed will be included in annual operating plans, which will be adapted to the technical, economic, environmental and maintenance criteria specific to each type of investment. Eligible projects will benefit communities whose average income is below the poverty line (905 balboas per capita per year).
- 2.9 Each district can allocate up to 70% of total financial resources to basic social infrastructure, and the remaining 30% to essential social services. The total amounts assigned *ex ante* to basic social infrastructure social services are US\$31.5 million and US\$13 million respectively. The remaining US\$4 million of resources are not distributed in advance, but will be used to cover cost overruns during execution. This division of resources is subject to the program's concurrent evaluation, the recommendations and findings of which can lead to the distribution between sub-components being changed.
- 2.10 The distribution of the program's resources is given in Annex III. This will be adjusted after the first year of execution in the light of the most recent information on: (i) the new ENV to be carried out in 2001; (ii) the 2000 Population Census; (iii) a variable to be included to reflect the higher costs per unit of investment in more remote areas (this will be developed in the first year of execution). The new census will provide more up-to-date information on poverty-correlated variables and the geographical distribution of the population which were used to prepare the first version of the map.

## **2. Community development component (US\$11 million)**

- 2.11 This component aims specifically to develop the capacity needed among local institutions – regional ESFs, municipios, neighborhood associations, local NGOs, and the grassroots community itself – to assume responsibility for investments undertaken in the community. Two major activities will be developed for this purpose: (i) community participatory planning will be strengthened to allow investments to reflect community concerns and interests; (ii) the functions of the ESF will be decentralized regionally to enable it to provide rapid and effective technical assistance. Community development actions need to focus on community planning processes and the coordination of local representatives with community needs, rather than municipal strengthening *per se*.

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<sup>10</sup> The percentage of funds assigned to each district is calculated by the district population multiplied by the incidence of poverty in that district, divided by the total poor population. The poverty map is weighted by higher investment costs in remote communities.

**a. Community promotion and planning (US\$5.6 million)**

- 2.12 Funds will be provided for technical assistance in implementing a new community planning mechanism, which will entail a radical change in the way the ESF operates in the investment planning and promotion stage. ESF promoters need to assume a highly proactive role in identifying key community stakeholders, and in coordinating their needs and planning investments. The ESF will be responsible for giving technical assistance to community institutions (neighborhood associations, local NGOs, municipios and other local agents), and providing them with technical information and costs relating to each type of investment.
- 2.13 The community planning methodology will have three phases: (i) dissemination of the community planning process and formulation of municipal annual operating plans (AOPs), (ii) the holding of public meetings in each municipal subdivision (*corregimiento*), (iii) a public meeting at the municipal level and formulation of the AOP. The details of the activities envisaged are given in paragraphs 3.6 to 3.10.
- 2.14 The ESF will publicize throughout each municipio the total amount assigned to it for carrying out projects under ESF auspices. The publicity will include the date, place and agenda of a public meeting to prioritize proposals and draw up the AOP. It will also include technical assistance to provide community stakeholders with the necessary forms and criteria for drafting the proposals to be presented and discussed at the public meeting.
- 2.15 The logical framework of the program envisages these activities expanding steadily to cover 100% of municipios by the time the program ends. In municipios where community planning is not applied, the ESF can fund projects up to the amount assigned, always provided they satisfy technical, economic and environmental viability criteria and the average income level of the community as specified in the program's Operating Regulations. Upon completion of the program's implementation phase, all participating communities should have the respective AOPs. More specifically, by the end of year two of implementation, 30% of the communities should have AOPs; this percentage should be increased gradually in keeping with the findings of the concurrent evaluation and the annual execution reviews.
- 2.16 In order to put community planning into effect, the ESF will adjust its participatory planning methodology in line with the expanded menu of social infrastructure and social service projects. In particular, the way the ESF operates in the investment planning and identification stages needs to be radically changed to give the community a significant role in identifying and conceptualizing the project. ESF promoters need to be highly proactive in identifying important community stakeholders, coordinating their needs and planning investments. The ESF must also ensure that participatory processes include the poorest of the poor, who



normally have least voice within their communities. Regional ESFs will have the major responsibility for implementing the community planning methodology.

- 2.17 The participatory planning process needs to be supplied with a range of information relating to social, economic, environmental and gender aspects.<sup>11</sup> In particular, it should take account the history, culture, traditions and languages of beneficiary indigenous peoples,<sup>12</sup> as well as the structure and organization of the municipios covering their territories, when appropriate. The promotion of participatory processes among indigenous communities needs to take advantage of the fact that indigenous peoples have historically dealt with economic, political and social problems through community organizations; the Kuna and the Emberá-Wounan, for example, have a long tradition of community organization.<sup>13</sup> The strength of indigenous organizations will need to be taken into consideration when promoting socioeconomic development and poverty alleviation activities for these peoples. Special attention will be placed on ensuring participation by indigenous communities located in jurisdictions outside their established territories.
- 2.18 Women will be encouraged to participate, so as to ensure that ESF-funded projects take their special needs into account. To make women's participation more effective in the present operation, consideration will be given to their threefold role, as well as their time constraints and development priorities, in view of the way they control resources. Efforts will be made to ensure that women benefit from the job opportunities created in the infrastructure sector. In achieving these goals, advantage should be taken of the gender equality that exists in community participation processes in Panama. At the community level, women participate both in defining problems and providing solutions; among indigenous populations too, the role of women in the community is becoming ever more active and increasingly accepted by men.<sup>14</sup>

#### **b. ESF decentralization (US\$5.4 million)**

- 2.19 In 1997 the ESF began a process of decentralization to enable it to respond more effectively to community needs. So far, regional offices have been established in Chiriquí, Colón, Veraguas, Coclé and Los Santos. The program will finance the

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<sup>11</sup> Participatory planning must have a gender focus so as to propitiate an analysis of gender relations in the community and initiate changes leading to equitable development.

<sup>12</sup> Among the distinguishing characteristics of indigenous peoples are their strong attachment to ancestral lands, dependence on renewable natural resources, subsistence practices and their own history, culture and language. The challenge is to incorporate such diversity of culture, history, languages and ecological perspective in the objectives of the present operation.

<sup>13</sup> Panama Poverty Assessment. Priorities and Strategies for Poverty Reduction. The World Bank. June 28, 1999.

<sup>14</sup> Ibid, 1999.

opening of at least two additional regional offices in order to attend better to rural and hard-to-reach indigenous communities.

- 2.20 The program proposes a strengthening of regional ESFs to increase their local presence in the provision of efficient, rapid and effective technical assistance and monitoring to local institutions – local NGOs, municipios, *corregimientos*, neighborhood associations and the grassroots community itself – throughout the project cycle. Funding will be provided for drawing up action plans for the decentralization of regional offices, covering specific needs in terms of technical staff, training, systems and equipment for each particular office.
- 2.21 Funding will be provided for technical assistance in drawing up proposals for the decentralization of systems, staff and equipment, and also to cover the costs of training, equipment, publication of materials and information systems. By the end of the program, the production line offices and departments are expected to be operational in all regional offices.
- 2.22 In the course of preparing the program, the following were identified as areas in which the efficiency and impact of investments could be improved: planning, technical and economic assessment, environment, community development and the decentralization of the project line to regional offices. The program will support ESF work by (i) strengthening the role of the Planning Office in defining the institution's strategic orientation, including transparent mechanisms; (ii) hiring consulting services to review and fine-tune the criteria and processes used in projects' economic review, and expanding the list of criteria to include new types of program that will arise from the open menu; (iii) hiring consulting services to support the Office of Environmental Quality, in making sure new projects develop environmental criteria to be included in their respective environmental records; (iv) substantially expanding promotion work to support the community in developing community planning activities and report back to the community on the evolution of the technical development of the projects; (v) decentralizing line functions, including environmental activities, to regional offices, and opening at least two regional offices in order to establish a permanent presence in more distant regions.

#### **C. Costs and financing of the program**

- 2.23 Table II-2 presents a cost breakdown by investment category and source of financing.

**Table II-2**  
**Table of costs (in US\$ million)**

Categories	IDB	Gov't	TOTAL
1. <u>Social investments</u>	39.5	7.5	47.0
Social infrastructure	26.0	5.5	31.5
Social services	13.5		13.5
Project cost over-runs		2.0	2.0
2. <u>Community development</u>	8.5	2.5	11.0
Participatory planning	5.6		5.6
Decentralization	2.9	2.5	5.4
3. <u>Audits</u>	0.3615		0.3615
4. <u>Financial costs</u>			
Interest		6.6	6.6
Inspection and supervision	0.4885		0.4885
Credit fee		0.875	0.875
Total	48.85	17.5	66.35
Percentage	74	26	100

### 1. Financing of the program

- 2.24 The estimated cost of the program is US\$66.35 million. The loan from the Bank amounting to US\$48.85 million will be denominated in United States dollars and will be made from the resources of the Single Currency Facility of the Bank's ordinary capital. Bank financing will cover approximately 74% of the total cost of the program, as this operation qualifies as a poverty targeted investment with sectoral and geographical targeting. Interest payments during execution will be financed out of the loan proceeds. Table II-3 gives details of the terms and conditions of the proposed loan.

**Table II-3**  
**Conditions of the loan**

Sources of Financing	Ordinary Capital (Single Currency Facility)
Amount	US\$48.85 million
Terms:	
Amortization	30 years
Grace period	4.5 years
Commitment	3.5 years
Disbursement	4 years
Interest rate	Variable
Supervision fee	1% of the amount of the loan
Credit fee	0.75% per year on the undisbursed balance

## **2. Local contribution**

- 2.25 Local counterpart funds will amount to US\$17.5 million over four years and will contribute to: (i) basic social infrastructure, and a fund to cover justified cost overruns that arise during execution (US\$7.5 million); and (ii) support for the institutional decentralization of the ESF (US\$2.5 million). Communities themselves will contribute up to about 10% of the cost of projects in the form of cash, materials and labor – a contribution that will be included in the accounting records of local counterpart funds.

### III. INSTITUTIONAL FRAMEWORK AND EXECUTION OF THE PROGRAM

#### A. The borrower and the executing agency

- 3.1 The borrower will be the Government of Panama , and the executing agency will be the Emergency Social Fund (ESF). The ESF has long experience of executing programs financed by international financial institutions. Its executive capacity has been amply demonstrated in projects funded by the IDB and the World Bank.

#### B. Execution of the program

- 3.2 The period of execution will be four years and the disbursement period will be four and a half years, both counted from the date of the loan contract.
- 3.3 The basic execution scheme envisages actions shared between the ESF and community organizations, local NGOs, other specialized service providers and local government institutions, such as *municipios*, neighborhood associations and *corregimiento* representatives. Within this framework the ESF has the following responsibilities: (i) working with neighborhood associations, other community organizations and municipal councils to develop community planning activities, from which the year's annual operating plan (AOP) will be drawn up for each *municipio* and its corresponding subdivisions or *corregimientos*; (ii) developing programs included in the AOPs which are technically, economically and environmentally viable; (iii) calling for bids for the execution of projects, construction work and programs included in the AOPs; (iv) calling for bids among community organizations for the administration of the program; (v) supervising community training in the maintenance of installations before and after they have been completed; (vi) supervising the execution of programs in conjunction with the community, and (vii) contracting independent appraisals of the operating mechanisms, community development and program impact.
- 3.4 Other agencies participating in the program will include neighborhood associations and municipal councils, which together with other community stakeholders will hold public meetings to draw up the AOPs that the ESF and the community will carry out. At the stage of individual project design, the community has joint responsibility with its elected representatives to: (i) choose the program administrator, (ii) act as a support agency in program supervision, (iii) obtain training in project maintenance processes, (iv) undertake maintenance activities.
- 3.5 The community planning methodology will have three phases: (i) dissemination of the community planning process, leading to the formulation of AOPs for each *municipio*; (ii) the holding of public meetings at the *corregimiento* level and (iii) public meetings at the municipal level and formulation of the AOP. This

methodology will take into account the native languages and culture of the different indigenous ethnic groups.

- 3.6 **Dissemination.** Responsibility for publicizing the community participation methodology and formulating the AOPs will rest with the ESF Promotion Office.<sup>15</sup> The ESF promoter will be responsible for disseminating the new program and for informing community and municipal leaders about the proposed community planning process. Use will be made of information pamphlets, advertisements placed in schools, health centers and other community areas, NGO workshops and other information media, to make sure that all members of the community, including those living in isolated and indigenous areas, will be made aware of the new ESF program.
- 3.7 **Community prioritization.** Once the task of dissemination is completed, the ESF will convene public meetings at the *corregimiento* level. These will be called with sufficient notice to ensure full participation, even among the most isolated and indigenous communities.
- 3.8 The promoters will take care to inform communities about the characteristics of the community planning methodology, the procedures used to estimate needs and prioritize projects,<sup>16</sup> the negative investment menu, the resources available to each municipio to fund priority community projects, and the average costs of each type of investment, together with additional technical information, such as the date and place of the open meeting. Communities will thus have the elements needed to formally present their project proposals at the *corregimiento* meeting. The promoters will be able to suggest examples of possible projects, to enable communities to familiarize themselves with the types of project that are eligible.
- 3.9 During the public meeting of the *corregimiento*, anyone will be able to present project proposals, from which a final list will be drawn up strictly in accordance with local priorities. The meeting will be presided jointly by the ESF promoter and an elected local representative, and these will be responsible for confirming participation by all sectors of the community and ensuring female participation. They will also coordinate the selection of the final project list and organize the taking of minutes.
- 3.10 **Municipal planning.** The third step in this process will be the grand public meeting. All *corregimientos* in a given municipio will present their priority project lists during the municipal meeting. The ESF promoter and the municipal council will again be responsible for convening the municipal meeting with sufficient notice, and will provide participants with the information needed to prioritize

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<sup>15</sup> The ESF promoter will be present at each of these events.

<sup>16</sup> Including the technical requirements for project design and possible project benefits that have not yet been considered by the community.

projects for the municipio and draw up its AOP, including each municipio's budgetary allocation for funding priority projects. The notice convening the meeting will include the corresponding date and place.

- 3.11 During the municipal meeting, the ESF promoter and the municipal council will assist in the process of prioritizing the projects identified by the *corregimientos*, using the same project selection methodology as in the local meetings. They will also be responsible for making sure that the composition of the final list of projects to be funded in each municipio, is participatory and within the municipio's budgetary allocation. The minutes of the municipal meeting will be taken, and these will form the basis for drawing up the municipio's AOP. Every AOP will be publicized in the respective community.
- 3.12 The program's logical framework envisages these activities expanding steadily to cover 100% of municipios by the end of project execution. By the end of year two of implementation, 30% of the communities should have AOPs; this percentage should be increased gradually in keeping with the findings of the concurrent evaluation and the annual reviews. In municipios where the community planning methodology is not applied, the ESF can finance projects, using the negative menu, up to the amount assigned for the municipio (split 70%-30% between social infrastructure and priority projects respectively) following its traditional promotion methodology, always provided they satisfy the criteria on technical, economic and environmental viability and the community's average income level, to be specified in the Operating Regulations of this program.
- 3.13 The ESF uses a production line concept to manage resources, which includes stages of promotion, evaluation, management and monitoring, environmental quality and community training. There are also support units responsible for legal questions as well as planning, systems and administration. In the new program, the ESF is expected to expand its regional presence by (i) opening additional regional offices, and (ii) decentralizing its line functions to the regional offices.
- 3.14 The **Planning Office** will be responsible for preparing the program's annual work schedules covering the activities proposed for the year and the projects arising out of community planning processes, along with their timetables and budgets. These programs will be drawn up to enable the ESF to incorporate the programs' budgetary requirements in its own resource budget for the following year.
- 3.15 The **Promotion Department** will be responsible for developing activities contemplated in component 2(a) related to promotion and community planning. This means a radical change in promoters' responsibilities and will require the staff profile to be broadened to include people with experience in community development. The promoters, jointly with the **Evaluation Department**, the **Office of Environmental Quality Systems** and the **Community Training Department**, and in conjunction with local institutions, will analyze the economic, technical and

environmental viability of the projects being considered for inclusion in municipal AOPs.

- 3.16 The line offices and departments mentioned above, as well as the **Monitoring and Oversight Department**, and technical staff from the at-risk groups unit, will be responsible for drawing up and executing the individual programs contained in the AOPs. In the event of substantial problems relating the technical, environmental or economic viability of any of the proposed projects, the respective line units, together with the promoter, will be required to initiate a dialogue with the community to define alternatives.

**C. Procurement of goods and the contracting of construction work and consulting services**

- 3.17 The procurement of goods and services, construction work and the hiring of consulting services, will be carried out in conformity with standard Bank procedures. This will require using international competitive bidding for: (i) construction work with a value of US\$1 million or more; (ii) the procurement of goods valued at US\$250,000 or more; and (iii) the hiring of consulting services costing US\$200,000 or more.
- 3.18 Procurements and contracts for smaller amounts will be subject to procedures to be included as Annex D to the loan agreement. In conformity with these procedures, local competitive bidding (LCB) will be used for construction work valued at US\$250,000 or more but less than US\$1 million, for goods valued at US\$100,000 or more but less than US\$250,000, and for consulting services valued at US\$100,000 or more but less than US\$200,000. Limited local bidding (LLB) will be required for construction work valued at less than US\$250,000, and for goods and consulting services valued at less than US\$100,000. The executing agency may not award any new works contracts to a contractor group when the value of contracts awarded to that group totals US\$1 million or more, except when the new contract is awarded by public bidding. Direct contracting may be used for goods, related services, construction work, and consulting services only for amounts below those indicated for LLB and under the following circumstances: (i) two contractor selection processes have been declared void; and (ii) bidders lack access to the area where the work is to be carried out.
- 3.19 As the present operation envisages a large number of transactions involving the purchase of goods and the hiring of services, the ESF and the authorities will keep on file the originals and/or copies of contracts, purchases orders, invoices, receipts, payment vouchers, supplier certificates and any other document needed to corroborate information provided in the report submitted to the Bank for the disbursement of the financial resources. The documentation to be kept by the ESF will be properly identified and filed, and must be made available for inspection by the Bank and external auditors. As regards accounting records, and in order to be



sure that monies from the revolving fund are distinguished at all times from other resources managed by the executing agency, bank accounts will be opened and separate accounting records kept in conformity with the accounts catalogue approved by the Bank.

- 3.20 The Bank is advised to make ex ante checks of the documentation relating to the first three bidding processes for the purchase of goods and ancillary services, and the contracting of construction work and consulting services. The documentation relating to subsequent bidding processes will be checked ex post in accordance with Bank policies on this issue.

**D. Revolving fund and disbursement**

- 3.21 In accordance with current Bank provisions, the revolving fund mechanism will be used, up to a maximum of 5% of the total loan. Every six months, and within 60 days after the end of each semester, the borrower will submit financial accounts reporting on how the proceeds of the revolving fund have been used. Replenishment of the fund will be linked to the amount of expenses considered eligible for the program, duly justified with corroborating documentation.

- 3.22 The timetable for program disbursements will be as follows:

**Table III-1**  
**Proposed distribution of program resources**

Source	First Year	Second Year	Third Year	Fourth Year	Total
IDB	8.8	12.0	15.2	12.3	48.3
Local	2.0	3.0	3.0	2.0	10.0

**E. Disbursement to initiate program activities**

- 3.23 It is recommended that, after the signing of the contract but before the prior conditions for disbursement have been fulfilled, the Bank should disburse up to US\$70,000 in funding to initiate program activities relating to the special conditions. Of this, US\$10,000 will be to start the process of contracting the concurrent evaluation, US\$20,000 to cover the concurrent audit contract and US\$40,000 for the operating regulations, including the participatory planning guidelines.

**F. Accounting and external audit**

- 3.24 The ESF will set up and maintain proper accounts and records, and these will be audited within 120 days after the end of the fiscal year by an independent and qualified firm of auditors satisfactory to the Bank. Audited financial accounts will first be presented at the end of the first six months of the year in which

disbursements begin, and in every subsequent year of the project's execution. The auditors' fee will be charged as a project expense.

- 3.25 Apart from the annual audit of the project's financial accounts, a concurrent audit will be undertaken of documentation relating to disbursement orders and acquisition procedures. An independent firm will be contracted to carry out this audit at six-month intervals during execution of the program.

**G. Annual reports**

- 3.26 During execution of the project, the ESF will prepare annual progress reports based on the main objectives and monitoring indicators agreed upon and incorporated into the program's logical framework. These reports will be presented within the first 60 days of each calendar year, and will form the basis for the program's annual review.

**H. Annual reviews**

- 3.27 During program execution, the ESF and the Bank will undertake joint annual reviews to assess the program's performance and impact in accordance with the methodology, terms of reference, and impact indicators established in the logical framework and previously agreed by the ESF and the Bank. The first such review will be conducted within the 60 days following the end of the first six months or such other period as the parties may agree. The annual review will pay special attention to: (i) the recommendations of the concurrent evaluation, described in point J below; (ii) the review and approval of annual work programs (municipal AOPs); and (iii) the counterpart resources available for the following year, among other things. If, on the basis of these reviews, the Bank identifies significant deviations from the criteria set forth in the program's Operating Regulations, the ESF will have 60 days as of the date of the review to present the corrective measures that are to be taken and the schedule for carrying them out. The supervisory team will be comprised of the project team, the Country Office specialist and, when necessary, consultants. When 50% of the program resources have been disbursed, a midterm mission will be undertaken to review the program's intermediate impact.

**I. Bank supervision**

- 3.28 The Bank will monitor the progress and execution of the program, through its Country Office in Panama City and through annual technical monitoring missions carried out by the project team, to review the progress of the program and fulfillment of targets.

**J. Concurrent and impact evaluations**

- 3.29 The execution of the program will be subject to concurrent evaluation. This element was built into the previous loan and gave very positive results, because it enabled

adjustments to be made on important issues such as environmental quality and the maintenance of installations. In the current program, assessment will focus on the development of community planning activities and the environmental quality of the open menu, among other things. There will be three evaluation reports: (i) when 25% of the program has been executed, (ii) at the halfway stage, and (iii) when 75% of all resources have been committed. The ESF is to present, for the Bank's approval and within the 60 days following the last disbursement, a final evaluation report that contains an analysis of the beneficiaries and benefits of the program with an eye to determining the impact of the investments on the quality of life of the communities concerned.

# **K. Conditions precedent to disbursement**

**Table III-2**  
**Conditions precedent to disbursement**

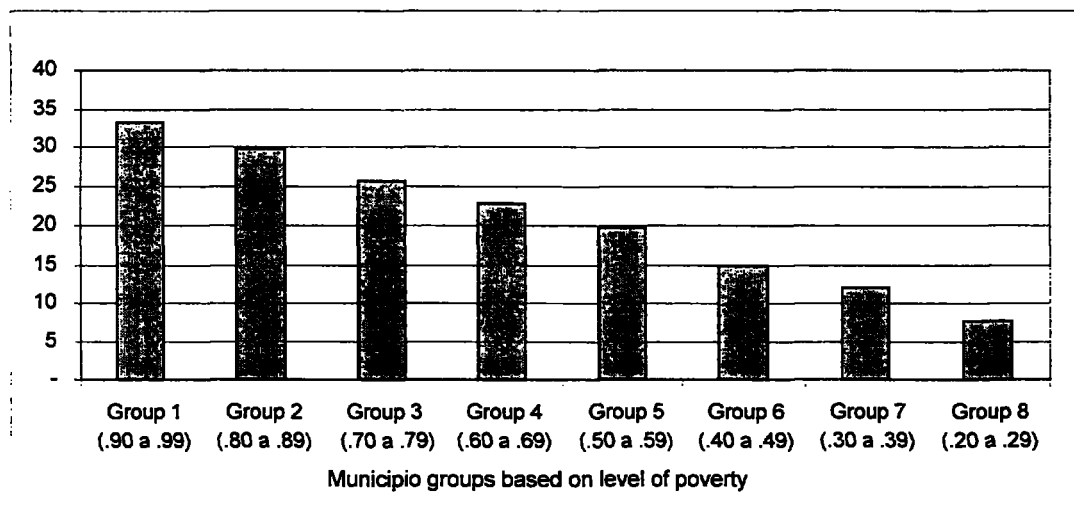
Condition	Date of compliance	Instrument of verification
The borrower must provide evidence that the program's Operating Regulations have been put into effect, in accordance with the terms previously agreed with the Bank. The Operating Regulations will include the program's general participatory planning guidelines, and guidelines corresponding to indigenous communities.	4 months	Official resolution of the ESF board, putting the Operating Regulations into effect. Report on the Operating Regulations.
The borrower must provide evidence of having hired the consultant or consulting firm to carry out the program's concurrent evaluation, in accordance with the terms previously agreed with the Bank.	3 months	Terms of reference agreed with the Bank. Evidence of hiring and the procedures used.
The borrower must provide evidence of having hired an independent firm of auditors, acceptable to the Bank, to carry out the program's concurrent audit, in accordance with the terms previously agreed with the Bank.	3 months	Terms of reference agreed with the Bank. Evidence of hiring and the procedures used.
The borrower must have submitted a report establishing the types, amounts and conditions under which the local contribution to be made by communities participating in the program can be quantified as its counterpart.	2 months	Methodological report agreed with the Bank.

#### IV. BENEFICIARIES, VIABILITY AND RISKS

##### A. Beneficiaries

- 4.1 The aim of this program is to fight poverty and confront the welfare disparities that exist in Panama. The ESF gives priority to social infrastructure investments to meet the basic needs of poor people and to encourage investments in social programs to help vulnerable groups. The program's social impact is expected to be highly effective, since: (i) it will target the investments on the poorest communities of Panama, using the poverty map, and at the same time, (ii) it will develop local capacities for communities to take over the decision-making processes that affect them, and so increase the relevance of the projects funded.
- 4.2 The implementation of a **new targeting scheme** to pre-allocate funds according to the incidence of poverty will ensure that the program has a highly redistributive impact. The allocation of funds to municipios, based on their share of the poor population, will guarantee greater per capita investment in municipios with a higher percentage of people living in poverty. For example, average per capita investment in the poorest group of districts will be over four times the level of investment in districts with a lower poverty rate (Figure IV-1).

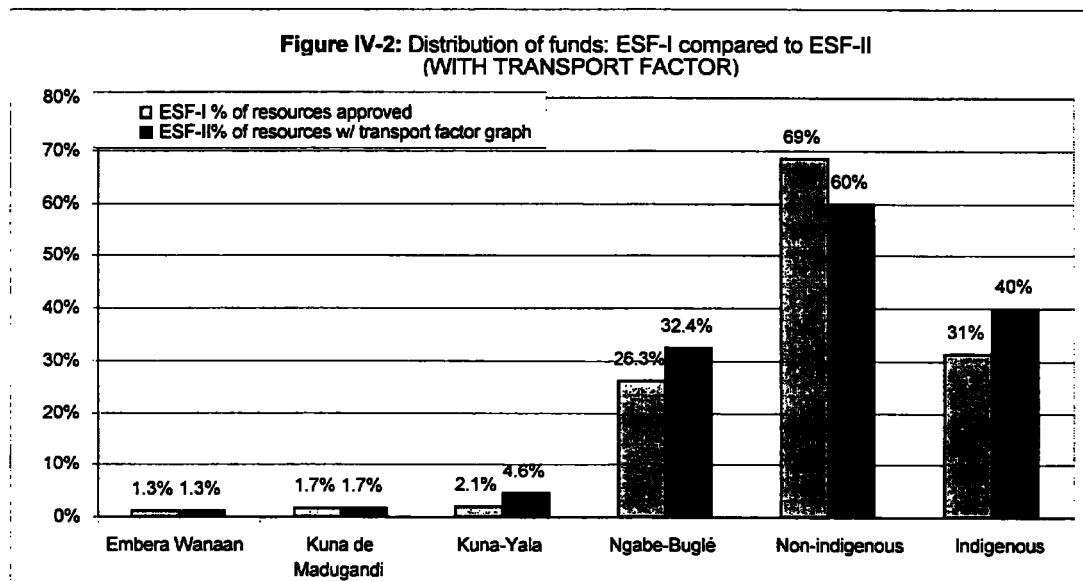
Figure IV-1. Per capita investment by municipio group



- 4.3 The old method of targeting used in ESF-I was based on average community incomes obtained from the 1990 Population and Housing Census. Four levels of poverty were established: Level 1 (B\$0-B\$44), extreme poverty; Level 2 (B\$45-B\$88, poverty; Level 3 (B\$89-B\$132), near poverty; and Level 4 (B\$132+), non-poor. According to analyses carried out during the preparation of the operation, the targeting of resources was effective, as almost 85% of projects funded by the IDB

program between 1994-1999 benefited populations living in conditions of poverty or extreme poverty (Webb, 1998).

- 4.4 The distribution of resources under the new targeting system will be similar to the previous scheme, although it will allocate a higher percentage of funds to the poorest group of municipios and to those with a larger indigenous population (Figure IV-2).



- 4.5 This method for allocating funds is transparent, as it is based on the poverty map prepared by the Ministry of Economy and Finance. A spatial targeting system is also justified in view of the high geographical concentration of poverty in Panama. Geographic targeting will facilitate redistribution of resources to indigenous populations, since most ethnic groups live within their corresponding territories.<sup>17</sup> The higher incidence of poverty among indigenous populations living in their respective areas reinforces this benefit.

## B. Viability of the investments

- 4.6 To ensure the quality and viability of each project, the ESF uses an assessment process involving socioeconomic, technical and economic analysis, together with an assessment of environmental impact.

<sup>17</sup> Nearly 70% of indigenous populations live in indigenous areas, with 19% living in urban zones and the remainder living in non-indigenous rural areas. The pattern varies between indigenous groups. Nearly half the Kuna and Embera-Wounan population live outside indigenous areas, while 84% of the Ngobe-Buglé people live in their respective territory.

- 4.7 The socioeconomic analysis ensures that the project's beneficiaries belong to income groups identified as the ESF target population, and that the project really does address a community need. It also verifies interest on the part of the community to contribute to the cost of the project and/or to its maintenance.
- 4.8 The technical analysis of the project verifies the scope proposed in its formulation, and considers other possible alternatives with different technical solutions. In all sectors, projects benefit from close collaboration between the ESF and the respective sectoral ministries, which have provided and/or approved the designs, plans and technical specifications of the projects. For example, in the case of projects in the education sector, architectural designs and size criteria comply with Education Ministry standards. Health sector projects are consistent with the policy guidelines, programs and standards of the Health Ministry. Drinking water and sewerage projects have been designed in accordance with Health Ministry standards, as well as those of the National Water and Sewerage Authority in the case of sanitation projects. In highway infrastructure projects, the ESF has collaborated on current guidelines and standards with the Ministry of Public Works.
- 4.9 **The ESF environmental quality system.** The concurrent evaluation of loan 854-5/OC, concluded that the treatment of environmental issues in the project cycle suffered from the following defects: (i) the project design process systematically omitted environmental considerations, which in theory should be incorporated from the very beginning of planning activities; (ii) there is no specific assessment of cause-effect relations between actions taken in each project and their possible environmental implications, nor an environmental impact assessment to make it possible to follow up with more detailed environmental analyses; (iii) design faults in the ex ante environmental assessment, together with a lack of supervision during execution, leads to undesirable situations during construction which could have been detected by effective environmental analysis at the design phase; and lastly (iv) contracts drafted by the Management Office ought to become a powerful mechanism for preventing inappropriate environmental management in the design, construction and operational stages.
- 4.10 As a result of these findings, a system was proposed for the environmental analysis of ESF projects, and was first implemented in early 1998. The scheme, which is detailed below and summarized in Figure IV-1, assesses the potential environmental impact of all projects. During the project identification phase, information is collected from the available environmental records for each investment type. The ESF's Evaluation Office then makes a recommendation on the project's environmental classification. If the project's environmental impact is considered minimal, it classifies in category I; otherwise, if the project classifies as category II, an environmental impact study (EIA) has to be carried out. The Management Office introduces environmental mitigation measures into the contract between the executor of the physical works, the inspector and the ESF; and the Monitoring and Oversight Office carries out environmental inspection, to ensure

compliance with the conditions described in the technical environmental specifications for project execution.<sup>18</sup> Apart from this, the community is responsible for filling out a form certifying that the administrator, inspector and constructor of the installations have complied with the environmental responsibilities set out in the terms and conditions, in the environmental technical specifications and in the respective construction contract.

- 4.11 In the new program framework, the opening of the menu will generate new project types for which the ESF does not have environmental survey records, nor experience in drafting terms of reference for contracting EIAs in these new areas. Accordingly, within the framework of the present operation, the Office of Environmental Quality Systems will be reinforced with suitable staff and procedures for meeting these new demands. Apart from this, investment projects chosen by the community for which the ESF does not have environmental records, and/or projects that differ from the previous menu, will automatically classify as category II. The ESF will hire (on a short-term basis) experts on specific environmental impacts for each new area, with a view to generating terms of reference for EIAs that will enable environmental records to be developed for future projects in the sector concerned. The program's concurrent evaluation will cover environmental quality, the functioning of the new system and the changes arising from the opening up of the menu.
- 4.12 There are three aspects to the economic analysis. The first is an analysis of the supply of services similar to those to be provided by the project, compared to the demand for them in the project's area of influence. If a deficit is detected, an analysis will be made to see whether the project covers it. Secondly, the economic analysis verifies that the proposed solution is the minimum cost alternative, taking into account the investment, operation and maintenance costs of the available alternatives. Lastly, an economic analysis of the project is made according to its type and length of useful life. The methodology for this analysis will depend on the type of project: cost efficiency<sup>19</sup> or cost-effectiveness analysis when the nature of the project does not allow a reasonable, adequate and reliable quantification of the

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<sup>18</sup> The environmental technical specifications can be found in the document *Mecanismos Operativos de la Dirección de Sistemas de Calidad Ambiental del ESF*, July 1997.

<sup>19</sup> The cost-efficiency methodology first calculates project costs, taking as a benchmark the ESF cost system, which uses a combination of current market prices in each region and the lists of official prices published by the Panamanian Building Association, updated very six months. Parameters or indicators are then calculated for the specific project being evaluated, to make comparisons and decide whether or not the limits established as a reference for projects of similar type are exceeded; these are known as efficiency indicators. Once a representative sample of similar projects has been defined, the value of these indicators, called cut-off lines, can be determined with relative confidence. These are then used as benchmarks, as mentioned above.

benefits; or benefit-cost analysis,<sup>20</sup> when the benefits are quantifiable. Education, health and sewerage projects use a cost-efficiency methodology, whereas aqueduct projects use cost-benefit analysis.

- 4.13 The evaluation of educational centers defines the number of eligible classrooms and the regulatory minimum area, together with the special installations and equipment required for each school, according to the number of teachers, the enrollment at each grade level and classroom utilization. The evaluation of health centers considers effective annual demand, measured by services provided (number of consultations, procedures and treatments), and the level of service utilization. Civil engineering projects can include repair, extension or replacement, depending on the state of the physical plant.
- 4.14 A review of a sample of projects in the program's concurrent evaluation, presented to the Bank, shows that the ESF has developed sufficient assessment capacity to efficiently carry out the tasks of developing and financing projects presented by the communities.

#### **C. Institutional viability**

- 4.15 The ESF has nearly ten years' experience in project execution. In 1991-1998, the ESF carried out investments in several programs, covering four broad project categories: economic infrastructure, social infrastructure, social welfare and support for productive activities.<sup>21</sup> It has a capable managerial and technical staff together with internal oversight and operating procedures that have been in use for years.
- 4.16 The institution has gone through various processes of strengthening and evaluation. In 1996 its structure was simplified in order to improve efficiency and institutional effectiveness. Then, starting in 1997, the ESF embarked on a process of re-engineering based on an exhaustive Price Waterhouse study of the institution and its management, which resulted in a new organizational and communication structure with a vision, mission, strategic objectives and an institutional action plan. As a result of the redesign of project cycle processes and activities, the ESF sought

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<sup>20</sup> In the cost-benefit methodology, flows of benefits and costs are calculated in monetary terms throughout the useful life of the project. From these the project's economic return is calculated, either as the net present value of the flows benefits and costs of the project, or in terms of its internal rate of return. The latter is the discount rate that makes the total net flow of project benefits and costs over time equal to zero.

<sup>21</sup> IDB program 854/855 and IDB 220 represented, on average, 23% of all financial resources executed by the ESF in the 1994-1998 disbursement period. Other programs carried out by the ESF are the Community Development Program (Circuit Programs), the Development Program for the Ngobe Buglé Communities, and the Presidential Office Program for Colón Affairs. The Circuit Programs, financed by the Government of Panama, are large-scale projects. In 1994-1998, the ESF disbursed more than US\$65 million under this program, equivalent to 40% of its total disbursements. Another large program is the World Bank program (US\$38 million), from which over US\$3 million was disbursed in 1998, equivalent to 10% of total disbursements.



improvements in the efficiency of its project cycle. It has also installed a Management Information System (ORACLE) which has systemized the data required from project development. This new information system facilitates data searches and the preparation of project reports at each stage of the cycle. The present program will extend the use of ORACLE to regional offices.

- 4.17 As part of the information management system, the ESF has developed a series of key performance indicators to monitor production line efficiency and help in identifying obstacles quickly. Three types of indicators have been defined: volume and cost of production, processing time, and total quality investments. These will be applied to projects under the present program such as those funded by the World Bank. Additional indicators will also be developed to measure community participation.
- 4.18 From 1994 to March 1999, under IDB Programs 854/855 and 220, the ESF approved funding for 1,102 infrastructure projects for over US\$43 million. These included 260 educational projects, 215 in the water sector, 194 highway projects, 132 in the sanitation sector and 134 health projects; the remaining 167 were of other types. The average cost of each infrastructure project was approximately US\$40,000; the ESF has kept its administrative costs below 10% of disbursements. Between 1994 and October 1997, a total of 2,377 months' temporary employment were generated through ESF infrastructure projects.<sup>22</sup> The average wage per project was US\$1,555 among skilled workers and US\$864 for unskilled workers.
- 4.19 **Interinstitutional coordination.** In the case of infrastructure projects, interinstitutional coordination agreements are signed as a criterion for funding eligibility in each project line. Ministry staff participate in the technical analysis of projects. The sustainability and operating costs of projects in education and health are underwritten by the respective ministries, and their maintenance is guaranteed by ministries and/or by the communities themselves. The project cycle was revised in 1997 to include community training for project sustainability and maintenance.

#### **D. Risks**

- 4.20 **Community planning** will require an institutional transition from a promotion methodology using a pre-established menu to a more flexible operating scheme. The intensification of community participation in project identification and planning, together with the introduction of new and innovative projects, is expected to delay project development at the beginning of the program. To mitigate this risk, the program will introduce the new scheme gradually in the first year of execution to allow the institution not to lose momentum and to avoid genuine participation being compromised by the need to accelerate investment processes. The activities

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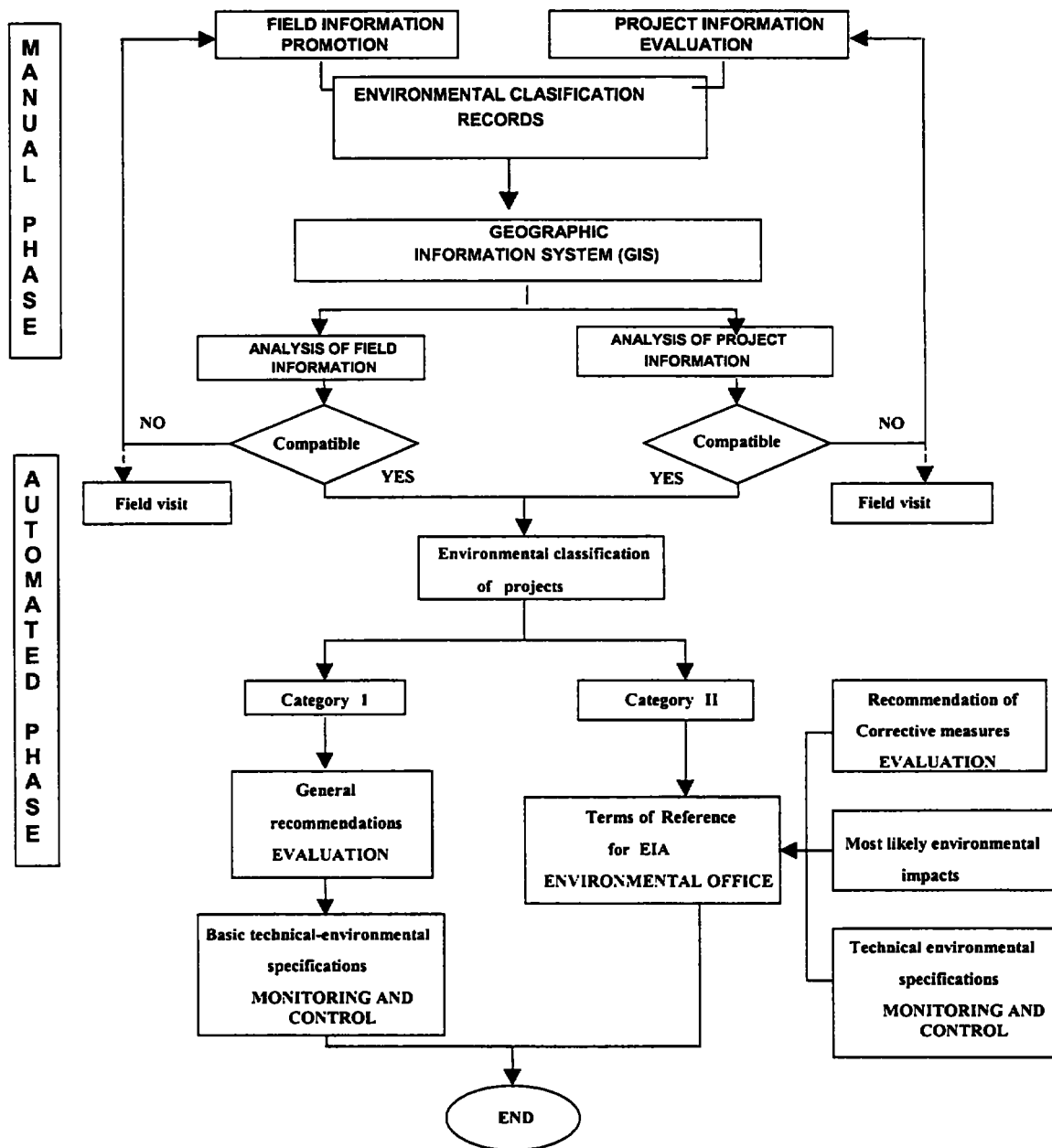
<sup>22</sup> Project executors are contractually required to hire 70% of their unskilled labor from among the residents of the respective community.

to be developed within this framework are well defined and will be incorporated into the program's operating manual.

- 4.21 **Populations living in extreme poverty.** There is a risk that the poorest populations will not benefit from the program as hoped, since they usually have less capacity for drawing up project proposals and a weaker voice in the community. ESF technical assistance towards communities, and the proactive role of its promoters, will be very important in ensuring that these communities participate adequately in the benefits of the program. The program also maintains the minimum eligibility criterion in terms of the average income of the beneficiary communities below the poverty line.

## ENVIRONMENTAL ANALYSIS OF ESF PROJECTS

### Formulation Phase



**PROGRAM FOR POVERTY ALLEVIATION AND COMMUNITY DEVELOPMENT (PN-0111)**  
**LOGICAL FRAMEWORK**

Objectives	Indicators	Means of Verification	Assumptions
<p>has two general and specific goals: (i) to maximize the investments on the incidence of poverty; (ii) to encourage participation by the community in their own development.</p> <p>The specific objectives are: (i) to ensure transparent resource allocation according to poverty criteria; (ii) to use the community planning methodology in the selection of activities eligible for funding; (iii) to take into account the concerns and interests of the most vulnerable populations; and (iv) to use the ESF line process to bring about changes in local realities.</p>	<ul style="list-style-type: none"> <li>Fall in indices of poverty and extreme poverty.<sup>1</sup></li> <li>Increase in productivity at municipal level.<sup>2</sup></li> <li>Increase in productivity of central and regional ESF offices in accordance with institutional objectives and those of the country's social agenda.</li> <li>At least 50% of program resources distributed among population living in conditions of extreme poverty (\$19 balboas per capita per year).</li> <li>Percentage of resources that benefit ineligible populations according to poverty criteria.</li> </ul>	<ul style="list-style-type: none"> <li>National standard of living survey and national accounts.<sup>3</sup></li> <li>Statistical analysis of information system of the Comptroller General's National Survey Office.<sup>4</sup></li> <li>Municipal GDP/national GDP.<sup>5</sup></li> <li>Internal ESF performance indicators.</li> </ul>	<ul style="list-style-type: none"> <li>Political, economic and social conditions in the country that are favorable to the project's objectives.</li> <li>Satisfactory coordination between central and regional ESF offices, municipalities and local entities (civic groups, neighborhood committees, etc.) in the project execution.</li> <li>Local counterpart contribution to the project.</li> </ul>
Activities	Indicators	Means of Verification	Assumptions
<p><b>Activities.</b> The program will allocate amounts of social investment funds at the municipal level, using the poverty map of the ENV-97. Local and community organizations will decide the distribution of funds in the municipality and define its list of projects, using the community planning methodology. The list of projects to be set out in annual operating plans. This component includes the following activities: (i) economic and social projects and (ii) priority projects.</p>	<ul style="list-style-type: none"> <li>Equitable allocation of resources at the municipal level, in accordance with the program's targeting methodology. Amounts disbursed per district correspond to those pre-allocated each year.</li> <li>Adjust resource distribution so that it reflects the results of the 2000 census in terms of population, incidence of poverty, and level of targeting.</li> <li>After the first year of execution, adjust the distribution of funds allocated by district in order to incorporate a variable that</li> </ul>	<ul style="list-style-type: none"> <li>ESF management information systems (ORACLE).</li> <li>New version of the resource distribution table.</li> <li>ESF internal performance indicators.</li> <li>Inspection visits and reports from ESF regional offices.</li> <li>Inspection visits and reports from the IDB Country Office in Panama.</li> <li>Annual technical monitoring missions carried out by the project team.</li> </ul>	<ul style="list-style-type: none"> <li>AOPs reflect the key stakeholders who participated in the annual planning process, the processes through which the resources are obtained for each specific geographic area.</li> <li>The results of the 2000 census and the ENV 2001 survey are available on a timely basis.</li> <li>Regional ESF offices and municipalities have effectively participated in the definition process.</li> <li>New infrastructure projects</li> </ul>

provided by the EFS.

Verification provided by the EFS.

Objectives	Indicators	Means of Verification	Assumptions
	<p>reflects the higher costs per investment unit in hard-to-reach areas.</p> <ul style="list-style-type: none"> <li>• Include poverty data from the ENV 2001 survey in the calculation of resource distribution</li> <li>• Amounts allocated per district are spent on priority investments.</li> <li>• Percentage of projects financed with cost overruns.</li> <li>• Percentage of projects financed with time overruns.</li> <li>• Percentage of projects that do not comply with eligibility criteria (poverty criteria, technical requirements, environmental requirements).</li> <li>• Percentage of resources that benefit ineligible populations according to the poverty criteria.</li> <li>• Average number of days of the ESF project cycle.</li> <li>• Municipios include distribution of priority investments: 70% on infrastructure and 30% on social services respectively.</li> <li>• Mechanisms for the design and evaluation of new projects established within the first six months of execution.</li> <li>• Percentage of projects financed from the expanded menu (outside the traditional menu).</li> <li>• Community contribution, in cash or kind, to cover a percentage of the total cost of the project, to be agreed in a participatory way.</li> <li>• The new projects from the expanded menu that lack environmental briefs are submitted to an environmental impact assessment.</li> </ul>	<ul style="list-style-type: none"> <li>• Amounts disbursed.</li> <li>• Program's concurrent evaluation; this should include an analysis or appraisal of community satisfaction (beneficiary assessments) with ESF funded projects.</li> </ul>	<p>menu), for which no environment has been developed are subject to</p> <ul style="list-style-type: none"> <li>• Maintenance of infrastructure by the community to ensure their sustainability.</li> </ul>

Objectives	Indicators	Means of Verification	Assumptions
<p>development. The necessary e developed among local regional ESF offices, municipios, associations, local NGOs and the self – for them to take for community investments. Two be carried out: (i) strengthening participatory planning; and decentralization of ESF functions.</p>	<ul style="list-style-type: none"> <li>• Operating plan for community planning (participatory planning methodology) and a strategy for its implementation and assessment at the national level developed in the first six months.</li> <li>• AOPs and public meetings at the <i>corregimiento</i> and municipal level held by at least 23 municipios during the first two years of execution.</li> <li>• Increase in target AOP percentages for subsequent years determined by the concurrent evaluation.</li> <li>• All municipios possess funded AOPs by program completion.</li> <li>• Community technical assistance workshops including information on average costs per investment together with material/forms and minimum criteria for drawing up proposals to be presented in public meetings, provided by the ESF at the community's request (neighborhood associations, local NGOs, municipios, etc.) one per year for each <i>corregimiento</i>.</li> <li>• Two additional ESF regional offices to be set up and operating by the end of the first year of execution.</li> <li>• Action plan for decentralizing the line functions of the central ESF office to the regional level, including the two additional offices, within the first three months of program execution. The ESF project cycle decentralized to regional offices at the end of the four year of execution.</li> <li>• Training sessions for ESF staff in promotion, financial administration, environmental oversight, management information and planning systems, and in any other topic considered relevant for</li> </ul>	<ul style="list-style-type: none"> <li>• Terms of reference of the consultant responsible for developing the Operating Plan for Community Planning.</li> <li>• Materials such as pamphlets, advertisements, etc., used by the ESF in the process of disseminating the program at the <i>corregimiento</i> and municipal level.</li> <li>• Radio, television and newspaper announcements used by the ESF in the task of disseminating the program at the community and municipal level.</li> <li>• Minutes of public meetings held at the community and municipal level.</li> <li>• Reports on technical assistance workshops for the communities and ESF staff.</li> <li>• Minutes of public meetings published in the newspapers of largest circulation in the municipio.</li> <li>• Lists of attendance at public meetings held at the community and municipal levels.</li> <li>• AOPs drawn up at the municipal level.</li> <li>• Program progress reports prepared by the Country Office of the Bank in Panama.</li> <li>• Amounts disbursed.</li> <li>• Concurrent evaluation of the program; this should include an analysis or appraisal of community satisfaction (beneficiary assessment) with ESF funded projects.</li> </ul>	<ul style="list-style-type: none"> <li>• Participatory planning method adapted to the expanded investment and decentralization of ESF at the regional level.</li> <li>• Regional ESF offices and municipal responsibility for effectively execution of the community methodology.</li> <li>• The ESF ensures that community processes include the poorest poor.</li> <li>• Municipios collaborate with publicizing the program's ex resources available at the municipal and the community participatory methodology.</li> <li>• Communities understand the community planning methodology participate in ESF technical and feel motivated and prepare up projects and present them neighborhood and municipal</li> <li>• Community planning and ESF assistance work adapted to the culture, traditions and language beneficiary indigenous people the structure and organization indigenous municipios.</li> <li>• Community planning that encourage participation by women and their special needs.</li> <li>• Women benefit from job opportunities created in infrastructure sector</li> <li>• Community planning encourage environmental protection and conservation of natural resources</li> <li>• The necessary conditions exist especially as regards attracting necessary qualified technical</li> </ul>

Objectives	Indicators	Means of Verification	Assumptions
	<p>enhancing its operation.</p> <ul style="list-style-type: none"> <li>Community contribution in cash or kind to cover a percentage of the total project cost, to be agreed in a participatory way.</li> </ul>		decentralized management information systems – to decentralize central ESF line functions.

## PROCUREMENT PLAN

Main categories	Finance	Procurement method (US\$ thousands)	Registration/ Pre- qualification	Program Year
<b>A. Program execution</b>				
1. Construction work US\$39.5 million  US\$9.5 million	IDB  Govt.	ICB over US\$1 million  LCB from US\$250,000 to US\$1 million  LLB below US\$249,000	Y/N   N/N	1, 2, 3, and 4   1, 2 and 3
2. Consulting and other services <sup>a</sup>  US\$4.5 million US\$0.5 million	IDB Govt.	ICB over US\$200,000  LCB from US\$100,000 to US\$199,000  LLB below US\$99,000	   N/Y	   2 and 3
3. Equipment and furniture  US\$2 million US\$1 million	IDB Govt.	ICB over US\$250,000  LCB from US\$100,000 to US\$249,000  LLB below US\$99,000	   	   
<b>B. Program administration</b>				
1. Short- and medium-term consultancies  US\$2 million US\$1 million	IDB Govt.	ICB over US\$200,000  LCB from US\$100,000 to US\$199,000  LLB less than US\$99,000	Y/N   	1, 2, 3, and 4   

DC – Direct contracting: Direct contracting may be used for goods, related services, construction work, and consulting services only for amounts below those indicated for LLB and under the following circumstances: (i) two contractor selection processes have been declared void; and (ii) bidders lack access to the area where the work is to be carried out.

LLB – Limited local bidding

LCB – Local competitive bidding

ICB – International competitive bidding

<sup>a</sup> Other services – training in community planning



**Preliminary allocation of program funds**

Comarca	Province	District	Ranking of districts ENV-97 (rev.1999 )	Probability poor (%) ENV-97 (rev. 1999)	Estimated population (July 1, 1998)	ESF-II preallocated amount TOTAL	FES-II preallocated amount ANNUAL
Ngabe-Bugle	- Bocas Toro	Chiriquí Grande	4.0	95%	5,651	189,386	47,347
	Bocas Toro	Kankintu	4.5	95%	21,054	705,599	176,400
	- Bocas Toro	Bocas del Toro	14.0	87%	8,842	271,375	67,844
Ngabe-Bugle	Bocas Toro	Kusapin	14.5	87%	15,752	483,453	120,863
	- Bocas Toro	Changuinola	40.0	65%	80,992	1,857,184	464,296
Ngabe-Bugle	- Chiriquí	Tolé	6.0	93%	13,330	437,333	109,333
	Chiriquí	Muna	6.5	93%	25,153	825,225	206,306
	- Chiriquí	San Lorenzo	9.0	90%	6,521	207,041	51,760
Ngabe-Bugle	Chiriquí	Besiko	9.5	90%	15,579	494,631	123,658
	- Chiriquí	Remedios	10.0	89%	3,570	112,088	28,022
Ngabe-Bugle	Chiriquí	Nole Duima	10.5	89%	8,110	254,630	63,658
	- Chiriquí	San Félix	16.0	86%	5,316	161,281	40,320
Ngabe-Bugle	Chiriquí	Mirono	16.5	86%	9,791	297,047	74,262
	- Chiriquí	Gualaca	29.0	73%	8,129	209,343	52,336
	- Chiriquí	Renacimiento	30.0	73%	17,672	455,101	113,775
	- Chiriquí	Alanje	43.0	63%	15,052	334,529	83,632
	- Chiriquí	Boquerón	44.0	63%	11,141	247,608	61,902
	- Chiriquí	Bugaba	49.0	57%	66,082	1,328,793	332,198
	- Chiriquí	Barú	51.0	56%	68,679	1,356,786	339,197
	- Chiriquí	Dolega	54.0	54%	14,690	279,843	69,961
	- Chiriquí	Boquete	55.0	53%	15,984	298,855	74,714
	- Chiriquí	David	60.0	40%	118,441	1,671,327	417,832
	- Coclé	Olá	11.0	89%	6,341	199,089	49,772
	- Coclé	La Pintada	18.0	85%	23,599	707,639	176,910
	- Coclé	Penonomé	28.0	73%	69,382	1,786,772	446,693
	- Coclé	Antón	32.0	72%	41,791	1,061,487	265,372
	- Coclé	Natá	42.0	64%	17,755	400,867	100,217
	- Coclé	Aguadulce	59.0	42%	37,011	548,377	137,094
	- Colón	Donoso	13.0	87%	12,045	369,680	92,420
	- Colón	Chagres	25.0	80%	10,557	297,941	74,485
	- Colón	Santa Isabel	39.0	67%	3,224	76,203	19,051
	- Colón	Portobelo	46.0	62%	6,774	148,162	37,040
	- Colón	Colón	65.0	30%	162,835	1,723,330	430,832
Embera Woanaan	Darién	Cémaco	2.0	98%	8,389	290,025	72,506
Embera Wanaan	Darién	Sambú	3.0	98%	2,783	96,214	24,054
	- Darién	Chepigana	23.0	81%	33,261	950,429	237,607
	- Darién	Pinogana	27.0	78%	17,029	468,579	117,145
	- Herrera	Las Minas	12.0	88%	9,158	284,304	71,076
	- Herrera	Los Pozos	24.0	80%	8,515	240,311	60,078
	- Herrera	Ocú	33.0	71%	16,756	419,690	104,922
	- Herrera	Pesé	45.0	62%	12,735	278,542	69,635
	- Herrera	Parita	50.0	56%	9,130	180,367	45,092
	- Herrera	Santa María	52.0	55%	7,154	138,807	34,702
	- Herrera	Chitré	67.0	25%	39,471	348,111	87,028

Comarca	Province	District	Ranking of districts ENV-97 (rev.1999 )	Probability poor (%) ENV-97 (rev. 1999)	Estimated population (July 1, 1998)	ESF-II preallocated amount TOTAL	FES-II preallocated amount ANNUAL
Kuna de Madugandi	- Los Santos	Tonosí	35.0	70%	9,469	233,831	58,458
	- Los Santos	Macaracas	38.0	67%	9,573	226,268	56,567
	- Los Santos	Pocrí	48.0	57%	3,633	73,053	18,263
	- Los Santos	Pedasi	53.0	54%	3,321	63,265	15,816
	- Los Santos	Guararé	56.0	49%	8,903	153,898	38,474
	- Los Santos	Los Santos	57.0	46%	22,636	367,330	91,833
	- Los Santos	Las Tablas	61.0	39%	22,144	304,663	76,166
	- Panamá	Chimán	17.0	86%	4,002	121,416	30,354
	- Panamá	Capira	31.0	73%	33,788	870,131	217,533
	- Panamá	San Carlos	34.0	71%	14,245	356,796	89,199
	- Panamá	Chepo	36.0	70%	36,306	896,553	224,138
	- Panamá	Balboa	41.0	65%	2,861	65,604	16,401
	- Panamá	Chame	47.0	58%	17,617	360,462	90,115
	- Panamá	Arraiján	62.0	38%	83,348	1,117,322	279,330
	- Panamá	Taboga	63.0	37%	2,136	27,881	6,970
	- Panamá	La Chorrera	64.0	36%	108,842	1,382,288	345,572
Kuna-Yala	- Panamá	San Miguelito	66.0	26%	315,382	2,892,742	723,185
	- Panamá	Panamá	68.0	20%	692,774	4,887,885	1,221,971
Ngabe-Bugle	- San Blas	San Blas	1.0	98%	39,178	1,354,465	338,616
	- Veraguas	Cañazas	5.0	94%	17,206	570,568	142,642
Ngabe-Bugle	- Veraguas	Las Palmas	7.0	93%	20,077	658,690	164,673
	- Veraguas	Nürün	7.5	94%	10,276	340,762	85,191
	- Veraguas	Santa Fé	8.0	91%	13,151	422,182	105,545
	- Veraguas	San Francisco	15.0	86%	9,840	298,533	74,633
	- Veraguas	Calobre	19.0	85%	13,348	400,253	100,063
	- Veraguas	La Mesa	20.0	84%	12,950	383,750	95,938
	- Veraguas	Soná	21.0	82%	30,284	876,045	219,011
	- Veraguas	Rio de Jesús	22.0	81%	5,703	162,963	40,741
	- Veraguas	Montijo	26.0	78%	12,964	356,725	89,181
	- Veraguas	Atalaya	37.0	68%	8,256	198,051	49,513
	- Veraguas	Santiago	58.0	45%	68,173	1,082,242	270,560
Total			75.0		2,763,612	45,000,000	11,250,000

RGII-PN171P  
PN-0111  
Original: Spanish

**PROPOSED RESOLUTION**

**PANAMA. LOAN No. \_\_\_\_/OC-PN TO THE REPUBLICA DE PANAMA**

**(Poverty Alleviation and Community Development 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 República de Panamá, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Poverty Alleviation and Community Development Program. Such financing will be for the amount of up to US\$48,850,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the "Financial Terms and Conditions" and to the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.