

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

**MULTIPHASE PROGRAM FOR SUSTAINABLE DEVELOPMENT
OF BOCAS DEL TORO**

(PN-0149)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data on Panama, including public debt information, please refer to the following address:

English:

<http://www.iadb.org/RES/index.cfm?fuseaction=externalinks.countrydata>

Spanish:

<http://www.iadb.org/RES/index.cfm?fuseaction=externalinks.countrydata>

ABBREVIATIONS

AMP	Autoridad Marítima de Panamá [Panama Maritime Authority]
ANAM	Autoridad Nacional del Ambiente [National Environment Authority]
APS	Áreas de Producción Sostenible [Sustainable Development Areas]
AWPs	Annual Work Plans
BFC	Bocas Fruit Company
CBMAP	Corredor Biológico Mesoamericano del Atlántico Panameño [Mesoamerican Biological Corridor for Panama's Atlantic Coast]
CD	District Committee
CDNP	Comité Directivo Nacional del Programa [National Steering Committee for the Program]
CPD	Provincial Development Committee
DPR	MEF Regional Planning Directorate
EIA	Environmental Impact Assessment
EMS	Program Evaluation and Monitoring System
FIS	Social Investment Fund
GTZ	German Technical Cooperation Agency
IDAAN	Instituto de Acueductos y Alcantarillados [Water and Sanitation Administration]
IMDS	Mesoamerican Initiative for Sustainable Development
IPAT	Instituto Panameño de Turismo [Panamanian Tourism Institute]
IRR	Internal Rate of Return
LCB	Local competitive bidding
LLB	Limited local bidding
MEF	Ministry of Economy and Finance
MIDA	Ministry of Agriculture
MINSA	Ministry of Health
MOP	Ministry of Public Works
PAN	National Environment Program
PILA	La Amistad International Park
PIOT	Indicative Land-use Plan
PPP	Puebla Panamá Plan
PROARCA	Regional Environment Program for Central America
PRONAT	National Land Administration Project
PTP	Petro-Terminal de Panamá
UCEP	Program Coordination and Executing Unit
USAID	United States Agency for International Development



PANAMA

IDB LOANS

APPROVED AS OF SEPTEMBER 30, 2002

	<i>US\$Thousand</i>	<i>Percent</i>
TOTAL APPROVED	1,918,411	
DISBURSED	1,471,380	76.7%
UNDISBURSED BALANCE	447,030	23.3%
CANCELLATIONS	394,930	20.6%
PRINCIPAL COLLECTED	684,859	35.7%
APPROVED BY FUND		
ORDINARY CAPITAL	1,594,612	83.1%
FUND FOR SPECIAL OPERATIONS	280,023	14.6%
OTHER FUNDS	43,775	2.3%
OUTSTANDING DEBT BALANCE	786,521	
ORDINARY CAPITAL	705,900	89.7%
FUND FOR SPECIAL OPERATIONS	80,101	10.2%
OTHER FUNDS	520	0.1%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	174,943	9.1%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	72,729	3.8%
ENERGY	377,840	19.7%
TRANSPORTATION AND COMMUNICATIONS	422,367	22.0%
EDUCATION	125,896	6.6%
HEALTH AND SANITATION	128,555	6.7%
ENVIRONMENT	88,180	4.6%
URBAN DEVELOPMENT	69,205	3.6%
SOCIAL INVESTMENT AND MICROENTERPRISE	86,539	4.5%
REFORM PUBLIC SECTOR MODERNIZATION	338,002	17.6%
EXPORT FINANCING	0	0.0%
PREINVESTMENT AND OTHER	34,154	1.8%

* Net of cancellations with monetary adjustments and export financing loan collecti



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Tentative Lending Program

2002

Project Number	Project Name	IDB US\$ Millions	Status
PN0125	Training and Employment System Development	8.4	APPROVED
PN0145	Program to Foster Competitiveness	7.0	APPROVED
PN0148	National Land Management Program	27.0	APPROVED
PN0147	Fiscal Management II	10.0	
PN0149	Sustainable Develop. Province Bocas del Toro	16.2	
Total - A : 5 Projects		68.6	
TOTAL 2002 : 5 Projects		68.6	

2003

Project Number	Project Name	IDB US\$ Millions	Status
PN0159	Improvement Integration Corridor PPP	49.0	
PN0152	Coast Zone Sustainable Management	5.0	
Total - A : 2 Projects		54.0	
PN0139	Priority Activities Hydrografic Basin Panama Canal	5.0	
PN0141	Support to the Rural Economy (PRORURAL)	25.0	
PN0143	Municipal Dev. and Community Participati	10.0	
PN0062	Panama City Sanitation Project	100.0	
*PN0154	Colon International Airport	35.0	
*PN0155	Bonyic Hydroelectric Proyect	10.0	
Total - B : 6 Projects		185.0	
TOTAL - 2003 : 8 Projects		239.0	
Total Private Sector 2002 - 2003		45.0	
Total Regular Program 2002 - 2003		262.6	

* Private Sector Project



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STATUS OF LOANS IN EXECUTION AS OF SEPTEMBER 30, 2002

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
1996 - 1997	7	210,000	88,886	42.33%
1998 - 1999	8	327,650	96,558	29.47%
2000 - 2001	4	79,465	1,891	2.38%
2002	2	15,400	0	0.00%
TOTAL	21	\$632,516	\$187,335	29.62%

* Net of Cancellations . Excluding export financing loans.

PANAMÁ

PROGRAMA MULTIFASE DE DESARROLLO SOSTENIBLE DE BOCAS DEL TORO PN-0149

La Región de Bocas del Toro es la segunda más grande del País. Está al occidente y en la frontera con la República de Costa Rica. La superficie total es de 8.745 Km² que representa el 12 % del territorio nacional con una población de 90.000 personas, en donde el 63% de la población es indígena.



El objetivo principal del Programa es iniciar la implementación de la Estrategia de Desarrollo Sostenible de Bocas del Toro, apoyando acciones e inversiones prioritarias de beneficio económico, social y ambiental que contribuya a generar, en el corto plazo, condiciones para el desarrollo sostenible de la Región. Para responder a dicho objetivo se requiere:

- Fortalecer el marco de gobernabilidad, sobre la base de la implementación de instrumentos de gestión efectivos, que permitan desarrollar capacidades institucionales de gestión económica, social y ambiental, a todos los niveles.
- Promover y facilitar el desarrollo de actividades económicas sostenibles de alto beneficio social y ambiental para la Región, apoyándolas con inversiones en los sectores productivos.
- Atender las necesidades de la población, en términos del acceso a servicios básicos e infraestructura.

MULTIPHASE PROGRAM FOR SUSTAINABLE DEVELOPMENT OF BOCAS DEL TORO

(PN-0149)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Panama		
Executing agency:	Ministry of Economy and Finance (MEF), through its Regional Planning Directorate		
Amount and source:		Phase I	Phase II
	IDB (OC):	US\$15,200,000	US\$27,000,000
	Local:	<u>US\$ 1,700,000</u>	<u>US\$ 3,000,000</u>
	Total:	US\$16,900,000	US\$30,000,000
Terms and conditions:	Amortization period:	20 years	
	Grace period:	3 years	
	Disbursement period:	3 years	
	Interest rate:	variable	
	Inspection and supervision:	1%	
	Credit fee:	0.75%	
	Currency:	Single Currency Facility (U.S. dollars)	
Objectives:	<p>The principal objective is to foster conditions for the sustainable development of the Bocas del Toro region through support for activities and investments that will yield economic, social and environmental benefits. Meeting this objective will require:</p> <p>(i) strengthening the framework of governance, through the introduction of effective management tools that will reinforce institutional capacities for economic, social and environmental management at the local, provincial, national and binational levels;</p> <p>(ii) promoting and facilitating the growth of sustainable economic activities that will produce strong social and environmental benefits for the region, by supporting investments in agriculture, forestry, tourism and fishing, and strengthening regulatory frameworks; and</p> <p>(iii) meeting the needs of the local population in terms of basic services and infrastructure, and strengthening regulatory frameworks.</p>		
Description:	<p>This is designed as a multiphase program that will lay the foundation for the measures included in the Development Strategy that has been</p>		

worked out with the government for dealing with the region's socioeconomic and environmental problems. Under the phased approach to execution, the first phase will focus on strengthening the management capacity of institutions and governments at the regional and local levels, and of local civil society organizations, as well as designing decentralized decision-making and management instruments for addressing the region's problems on the basis of sustainable management of natural resources. Funding will be provided for the solutions called for in the Strategy and associated Action Plan, while ensuring due complementarity and synergy with other projects of the Bank and other agencies. The program is structured in three components:

1. **Strengthening management capacity (US\$3.54 million).**

Building management capacity to be able to meet strategic, institutional and regulatory needs, with priority attention to the bottlenecks that currently limit decentralized and participatory sustainable management. Consistent with the Strategy, it is expected that by the end of the first phase the situation will have shifted: (i) from a weak administrative structure to a set of institutions that will promote sustainable development; (ii) from weak technical and management capacity to a set of institutions with the capacity to take action; and (iii) from scant civil-society involvement to a coordinated and participatory management arrangement.

This component will also deal with immediate needs, as expressed by the community, for: (i) strengthening local government and civil society institutions, stressing participation and ethnic and gender equity; (ii) strengthening the provincial government and various agencies—Ministry of Agricultural Development (MIDA), National Environment Authority (ANAM), Panamanian Tourism Institute (IPAT), and the Panamanian Maritime Authority (AMP) at the provincial level; and (iii) technical assistance for preparing agendas for strategy dialogues with the private sector, in particular the Bocas Fruit Company (BFC) and Petro-Terminal Panamá (PTP), as regards access to their services and implementation of the binational agenda negotiated by the two countries. The items to be financed are intended to create institutional and organizational capacity at the **three levels: local, provincial and national**. Activities under this component are essential for achieving the other two components, and for moving on to phase II.

2. **Sustainable management of natural resources and productive development (US\$4.33 million).** To achieve sustainable management of natural resources (soil, forests,

water and marine-coastal) and to foster productive diversification, through mechanisms for promotion, technical assistance and marketing, and investments in sectors of significant social, economic and environmental benefit. Consistent with the Strategy, at the end of the first phase, the situation is expected to have evolved: (i) from unregulated agricultural encroachment into protected areas to rationalized exploitation, concentrated in areas recommended by the Indicative Land Use Plan (PIOT); (ii) from damaging forestry practices to sustainable forestry management; (iii) from an undiversified economy to a diversified one, based on the local natural resource potential; (iv) from the depletion of coastal-marine resources to their sustainable use and development; and (v) from under-exploitation of the tourism potential to its sustainable exploitation.

Phase I will focus on building management capacity for the productive use of natural resources in a sustainable manner, and for reducing vulnerability to natural hazards. **Priority will be given to the following sectors:** (i) natural resource management and the prevention and mitigation of natural hazards; (ii) development, commercialization and diversification of agricultural and forestry activities; and (iii) conservation of subsistence fishery and development of sustainable tourism. Financing will be provided for: (i) **advisory services and studies**; (ii) experimental **pilot projects**; and (iii) eligible small projects selected by competition, in accordance with criteria established in the Operating Regulations. The pilot projects have been designed to adapt innovative mechanisms for use in the area (with acceptance of the inherently greater risk) and to produce useful experience for phase II. If they are successful they would be replicated, drawing on the lessons learned during their execution.

3. **Basic services and transportation infrastructure (US\$7 million).** This will meet local demands of communities to cover basic needs in terms of services and transportation and communication infrastructure, in order to improve living conditions. It will support preinvestment and investment, encouraging participation by the community and the private sector to meet needs for basic services and transportation infrastructure. Consistent with the Strategy, at the end of the first phase, the situation is expected to have moved from a basic infrastructure deficit to an infrastructure of better quality.

This component will also meet the immediate needs expressed

by the community: (i) improve the coverage and quality of water and sewer services; (ii) build a bridge over the Changuinola River and improve feeder roads; (iii) solid waste management and disposal.

Specifically, financing will be provided for construction of the **Changuinola Bridge** and for a **pilot project** for solid waste management and disposal on Isla Colón, for which preliminary studies have already been done. The following activities will also be eligible for financing: **rural aqueducts**, **sanitation** projects, **rural electrification** projects, **road** improvement or rehabilitation projects, and projects to rehabilitate **river and sea transport facilities** (wharves). Support for larger investments or those yielding returns in the medium term will be limited to preinvestment studies and another activities that will facilitate financing from other sources and in support of phase II.

**The Bank's
country and
sector strategy:**

The Bank's strategy is focused on four priority aspects: (i) attacking poverty and improving equity; (ii) economic reforms that will spur competitiveness and growth; (iii) consolidating the regulatory and institutional framework for sustainable growth; and (iv) institutional reforms that will strengthen governance and improve transparency. The proposed operation is consistent with the strategy because it will promote sustainable development, by attacking the underlying factors of poverty, environmental degradation and vulnerability. The proposed activities are consistent with government plans, in particular those relating to social equity enhancement, territorial and social integration of the country, and reconciling the needs of growth with those of environmental sustainability.

Because the operation is focused in the frontier region with Costa Rica, it will contribute to the pursuit of the strategy mapped out in the Puebla Panama Plan (PPP). It is consistent with the strategy for the Mesoamerican Sustainable Development Initiative (IMDS), which cross-cuts the PPP and will complement a portion of road-building initiatives in Panama's Atlantic corridor. The operation is designed to capitalize on the rich resource base and the comparative advantages of the Mesoamerican region, overcoming its historic infrastructure deficit and reducing its very high indices of poverty and its vulnerability to natural disasters. In the context of the PPP and the Mesoamerican Biological Corridor for Panama's Atlantic Coast (CBMAP), the operation is of strategic importance for the region, because of the existing links between the two countries, the binational integration agreements, and the economic interdependence along both sides of the border, where there are important biological and water resources and a significant tourism potential.

Coordination with other official development finance institutions:

This program is directly related to other projects and initiatives funded by the Bank and by other financial organizations. Notably, it is directly related to the **following projects**: Biological Corridor, National Land Administration Program (PRONAT) funded by the IDB and the World Bank, National Environment Program (PAN), Competitiveness Program (*Compite Panamá*), and Central American Regional Environment Program (PROARCA—especially PROARCA/Costas) with USAID funding, currently in progress, as well as PROARCA II which is slated to begin shortly. The proposed program also is related to the IFAD/SIF and GTZ indigenous-territory project (see paragraph 2.39).

Environmental and social review:

From the social and ethnic-cultural viewpoint, the program will emphasize participation as a fundamental element for deciding on priorities, formulating management plans and annual work plans, selecting activities and projects, and ensuring that solutions are appropriate to the communities. Civil society's participation in the different committees will be arranged through different mixes of organizations or representatives of ethnic groups, productive sectors and NGOs active in the province.

In an effort to enhance living standards and raise incomes, the program will promote priority investments in human capital and community self-management. It will also introduce instruments for fostering production and securing access to markets for small producers, using environmentally sustainable practices. The physical works planned, which are for the most part small-scale works with few environmental repercussions, will be subjected to environmental procedures that will be incorporated into the Operating Regulations (paragraph 4.16 of the proposal which follows).

The proposed operation entails risks, in environmental terms as well as in social and cultural terms. This reflects the difficulty of exerting control in areas where the demand for conservation is just beginning, and where the land tenure situation is unclear. Yet the risks of not having an agreed Development Strategy and a program for its implementation are even greater. This operation provides an opportunity for making significant progress in both the conservation and sustainable use of natural resources and in improving living standards for residents of the region. It is anticipated, therefore, that the overall social and environmental impact will be distinctly positive.

Benefits:

The program will produce direct and indirect benefits over the short and medium term at the local, regional, national and binational levels. It will result in stronger local governments and stronger, better organized and informed communities with a sense of ownership of natural resources management and local development. For the province as a whole, people's incomes will be increased through the

rational and efficient use of natural resources and improved living conditions, by meeting priority needs in terms of basic services and infrastructure.

Risks:

One of the greatest risks with sustainable development programs is that the requirements may exceed the absorption, response and management capacity of the existing institutional and participatory framework. This risk can be mitigated through a multiphase program structure. Possible delays in implementing the participatory and decentralized institutional framework for the program's execution will be minimized by its design, which has involved a broad process of consultation and participation with stakeholders and beneficiaries to ensure close links with the community.

Two other risks relate to: (i) a failure to reach agreement, within the agenda, with the Bocas Fruit Company (BFC) and Petro-Terminal Panamá (PTP) on the transfer of responsibility for basic services. This risk will be reduced through a gradual process of preparing and negotiating an agenda between the government, on one hand, and the BFC and PTP to explore and identify the best alternatives for that transition, involving other private service providers; and (ii) a failure to achieve financial sustainability in small projects, particularly those involving small-scale producers and local governments. To minimize this risk, the program design includes mechanisms for involving stakeholders and beneficiaries in decision-making, and for having them understand and accept their financial obligations and responsibilities in each case.

Special contractual conditions:

a. Conditions precedent to the first disbursement:

(i) Executive Decree establishing the program's implementation structure and defining the functions of: the National Steering Committee for the Program (CDNP), the Program Coordination and Executing Unit (UCEP), the Provincial Development Committee (CPD) and the three District Committees (CDs); (ii) selection and contracting of the core staff necessary for the UCEP to begin operating; and (iii) entry into force of the Operating Regulations, on terms acceptable to the Bank.

b. Special conditions precedent to disbursement of funds for component II and III activities:

Presentation to the Bank's satisfaction of the interagency agreements signed between the MEF and ANAM, AMP, IPAT, MIDA, the three municipalities and the provincial government (paragraph 3.3).

c. Special disbursement for the startup of activities:

To launch the program's priority activities, whether or not all the special contractual conditions have been fulfilled, a special disbursement of up to US\$400,000 is recommended once all the conditions precedent prescribed in the General Conditions have been met (paragraph 2.38) and the legal order creating the UCEP and defining its functions has been issued.

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing program, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). It also qualifies as a poverty-targeted investment (PTI). The borrower will use the 10 percent in additional financing (paragraphs 4.9 and 4.10).

Exceptions to Bank policy:

None

Procurement:

The procurement of goods and related services, the construction of works and contracting of consulting services will be done in accordance with the Bank's procurement policy. International competitive bidding will be required for the procurement of goods worth US\$350,000 or more and for works contracts in the amount of US\$1.5 million or more. International calls for proposals will be used for consulting contracts costing more than US\$200,000 (see paragraphs 3.33 and 3.34).

I. FRAME OF REFERENCE

A. Description of the Bocas del Toro region

- 1.1 The old province of Bocas del Toro covers 8,745.4 square kilometers, or 12% of Panama's national territory,¹ and has a population of 89,269. It is the second poorest province in the country: living standards are low and the growth rate has averaged 1.9% in the last 10 years. 63% of the population is indigenous (Ngöbe-Buglé, Teribe and Bri-Bri). The remainder is Afro-Caribbean and Latin, with small numbers of Europeans and North Americans who have settled primarily on the islands. The region has abundant natural resources, including an extensive land area covered by forest, areas suitable for (limited) farming and fishing, scenic and landscape resources for tourism development, great biological diversity and genetic potential among species of flora and fauna. It has a tradition of foreign trade and exports, and is endowed with water resources that could be used for hydroelectric purposes. The wealth of its terrestrial and marine biodiversity, the beauty of its island landscape, coastline and protected areas, the cultural wealth and diversity of its ethnic groups, have made Bocas del Toro an area of high priority not only for the government but also in the context of the Mesoamerican Biological Corridor on Panama's Atlantic Coast.
- 1.2 The region is bounded to the south by the Province of Chiriquí, and lies between the rivers Sizaola to the extreme west (the border with Costa Rica) and Chiriquí to the extreme east, at the base of the Valiente Peninsula, and includes several offshore islands. The region is legally divided into three zones: (i) protected or special-management areas; (ii) the indigenous reserve (territory) of Ngöbe-Buglé; and (iii) open areas. Protected areas and indigenous reserves in the country are covered by special land-use legislation.
- 1.3 For purposes of organizing efforts to manage the relationship between human activity and nature, an Indicative Land Use Plan has been prepared, with financing under the ATN/JF-7577-PN. That plan was based on studies of physical, biological and social data, and has grouped areas into homogeneous units to facilitate management of the region's sustainable development. Four homogeneous units have been identified, consisting of systems that are defined by the interaction of their geo-morphology, water, air, flora and fauna with human beings and that present concrete and representative landscape elements. Those four units are: (i) the Islands-Valiente Peninsula Zone; (ii) the Guabito-Chiriquí Grande Development Zone; (iii) the Special Management Zone; and (iv) the Shared Administration Zone, Ngöbe-Buglé Territory [*Comarca*].

¹ 4,144.1 square kilometers of the province's total surface area of 8,745.4 square kilometers was ceded to the Ngöbe-Buglé territory created by Law 10 of 7 March 1977.

- 1.4 **The Island-Valiente Peninsula Zone.** This unit consists of the Bocas del Toro archipelago and the Valiente Peninsula. It includes Isla Colón, the capital of the province and an important urban colonial relic of interest for tourism and hotel development because of its proximity to tourist sites and its accessibility by sea and air. It also covers the Islands of the Bay of Bastimentos, which includes the Bastimentos Islands National Park and the coastal marine areas of Bocas del Toro, with the Valiente Peninsula. The unit offers a variety of economic opportunities, focused primarily on ecotourism, mariculture, subsistence and sport fishing, and deep-sea fishing (to the north).
- 1.5 **The Guabito-Chiriquí Grande Development Zone.** This portion of the territory has greater potential for agriculture and forestry development, because of its location and the quality of its soil. The economy of the region and its development have depended on banana production and exports by the BFC Company. Banana growing occupies an important place in the country's economy and is a determining factor in the social and economic life of the province (3500 direct jobs), occupying a high proportion of the most productive land. Yet the industry is currently facing competitive pressures in the international market, because of high production costs, and its future will depend on mechanization and productivity improvements that are bound to have an impact on employment levels. In the short term, the region could be affected by restructuring of the banana industry, with a severe impact on employment, living standards and landholding patterns, as well as on the provision of basic services (water, electricity, road maintenance) that BFC now provides to the towns near its plantations. Most of the major towns in the region, as well as highways, ports and basic services, are located in this territorial unit. The region's foreign trade takes place through the ports of Almirante and Chiriquí Grande, which are located in this zone, the limiting factor for which is the lack of a vehicle bridge over the Changuinola River: traffic must now use the railway bridge belonging to BFC.
- 1.6 **Special Management Zone.** This consists of the central cordillera, an area of significant but fragile environmental quality. Its economic potential lies in its resources and the possibility for ecotourism development, according to the Panamanian Tourism Institute (IPAT). The unit includes the International Friendship ("La Amistad") Park (PILA), a portion of the Palo Seco Protected Forest and, to the south, a small portion of the Baru Volcano National Park and the La Fortuna Forest Reserve. The San San Pond Sak, a Ramsar wetlands site, is also located within this unit. The quality and scientific interest of its natural features is very high.
- 1.7 **The Shared Administration Zone, Ngöbe-Buglé Territory.** This zone covers the major portions of what was until recently the eastern portion of Chiriquí province and the Northwest of Veraguas province. Part of the Palo Seco Protected Forest reserve, it also constitutes the Indigenous Reserve (Ngöbe-Buglé Territory). For the most part, the territory is relatively inaccessible. As is the case with the Special Management Zone, basic services are virtually nonexistent. The unit is home to one

of the most important ethnic groups in the region: it represents a significant local labor force, and is a key factor for the banana industry.

- 1.8 **Coverage of the program.** The proposed program will cover the first three of the aforementioned zones, and will complement other projects being funded by the Bank as well as the World Bank and USAID, as indicated toward the end of chapter II. A development strategy has been devised for the fourth zone (indigenous territory), with funding for its implementation from other sources.

B. The major problems facing the region

- 1.9 Studies have concluded that the region is undergoing intensive change, as much economic and environmental as social and ethnic. The region's economic, social and environmental problems stem from unsuitable settlement patterns, the uncontrolled exploitation of natural resources, and the consequent problems of environmental pollution, insecure landholding and conflicts over land use, unemployment and marginality, uprooting of indigenous and local communities, among others. These problems are compounded by deficient infrastructure and public services and weak public and local government management capacity.
- 1.10 Economic activity in the region has always been modest, and has tended to change over time: this tendency was accelerated with opening of the Punta Peña-Almirante highway, which led to the influx of people from other provinces, significant population shifts within the region, and the growth of recreation and tourism activities. Other problems relate to the current exploitation of natural resources, the negative fallout from which is worsening and is likely to have a growing impact unless action is taken. They involve primarily the degradation of the natural features of the Bocas del Toro archipelago through the disorderly growth of tourism (rising volumes of solid and liquid wastes, loss of reefs, overfishing, etc.). The protected area, although it is intended to encourage contact with nature, suffers from a lack of information and public services
- 1.11 Unregulated construction activity, especially in Changuinola, Almirante and Isla Colón, is leading to the collapse of basic services in the region. The port of transfer for passengers to the archipelago, at Almirante, has already been degraded by dumping of wastes and encroachment on public lands, to the detriment of the region's tourism potential. The dumping of solid wastes in the major towns compounds this problem. Unless action is taken, the threat to resources will grow, and damage could be irreversible. Following is a summary of the major problems that must be addressed for the region's sustainable development.

1. Problems of governance without a participatory approach to development

- 1.12 The activities and responsibilities of the national ministries are reflected at the provincial level in the Provincial Directorates. Yet the public sector is still organized under a centralist model, where plans and programs are decided at the

central level. The provincial directors of national institutions are based primarily in Changuinola and Isla Boca, where they provide an institutional presence but have little autonomy and few operational resources. The provincial Governor, appointed by the President of the Republic, plays an auxiliary role of collaboration and coordination with the national offices, which are coordinated through a Provincial Technical Board, and oversees the consistency of their plans and activities with national policies. There is a provincial council where the legislators and mayors are represented, but not community organizations or producers: it is essentially a body for local politicians and officials. On the other hand, these organizations are weak and have little influence either with official agencies or with their communities.

- 1.13 The province is divided into three districts or municipalities: Changuinola, Chiriquí Grande and Bocas del Toro, each of which has five *corregimientos* or districts. Each district is governed by a Mayor, elected by popular vote. The districts are technically, administratively and financially weak. Though they have their own revenue sources, for the most part such revenues are not duly collected, and the districts also receive central government grants. Their capacity to provide basic services is low and they lack appropriate regulatory instruments. With the exception of the water boards, there is no community participation in these bodies, or in decisions on their priority investments. Moreover, there is no coordination or integration among the different levels. In addition, because it is a frontier region, bilateral coordination with neighboring Costa Rica is essential for carrying out work programs.
- 1.14 The weaknesses of the national institutions present in the region, the lack of any active mechanisms of management and governance, together with the low financial capacity of local government, make it impossible to meet the needs of the population in an orderly and effective way. There is a need to strengthen the institutions that make up the existing administrative and political framework, at the local, provincial and binational levels, in order to ensure greater citizen participation in decisions at the different levels.

2. Threats to natural resources and sustainable economic development

- 1.15 **Protected Areas System.** The region has four large protected areas, in addition to the Baru Volcano National Park, the La Fortuna Forest Reserve and the Indigenous Territory, use of which is limited by legal rules or by restrictions related to the fragile nature of their ecosystems. The areas are regulated by ANAM and in some cases jointly with AMP (where there are coastal marine resources involved) and they may be awarded under administration or services concessions to local governments, foundations and private businesses, for which the necessary regulations have been prepared. Nevertheless, the prospects for efficient natural resource management are threatened by growing accessibility and by invasions and degradation of these areas, given the inability of the responsible institutions (ANAM and AMP) to maintain a proper supervisory presence, and their lack of regulatory instruments.

- 1.16 The four major protected areas cover a total of 339,406 hectares (including a portion of the Ngöbe-Buglé indigenous reserve).

Protected Areas	Size in ha
Palo Seco Protective Forest	125,000
San San- Pond Sak wetlands	16,126
Isla Bastimento National Park(*)	13,226
La Amistad National Park	196,650
Total Mainland Area	339,406
(*) Includes 11,596 ha of the coastal marine zone	

- 1.17 The only one of these protected areas to have a management plan is the Bastimentos National Marine Park, and that plan has yet to be implemented by ANAM. The San San Pond Sak wetland has only a forestry inventory. In 1998, the Palo Seco protected forest was established in the Chiriquí Grande area, one of the "principal areas of forest loss and degradation in Panama", as a result of opening of the highway. To this must now be added the PILA. None of these areas is properly managed, in the absence of management plans and resources for implementing them. Despite the legislation creating them, the absence of institutional surveillance and management plans leaves them exposed to encroachment.
- 1.18 **Vulnerability of the region and critical areas.** The region's soils are highly vulnerable to erosion, particularly on the steeper slopes, because of high precipitation levels and the advancing agricultural frontier. This has led to soil degradation in areas along some of the branch roads leading from the Punta Peña-Almirante-Changuinola highway up into the central cordillera. These areas have suffered from irregular lumbering, from "clearing" to obtain ownership rights, and from the construction of access roads that are not built to proper technical specifications. The area is also exposed to heavy rainfall throughout the year, as well as to seismic activity. There is a need to contain erosion, to protect infrastructure, housing and crops, and to restore natural regulation to the flow of rivers and creeks where there is high risk of sedimentation and flooding. In addition, several areas lie on geological faults that make them vulnerable to landslides and earthquakes.
- 1.19 **Forestry.** Of the region's 874,540 hectares, forests cover 530,000 hectares, most of which is protected. Forests outside the protected areas, which are open to exploitation, covered about 63,342 hectares and are located in the northwestern portion of the province along the border with Costa Rica, on the major highlands of the archipelago, and in a few enclaves around the Palo Seco Protected Forest. It should be noted that the forests of the country's Caribbean slope in general, and of Bocas del Toro in particular, are rich in biodiversity.
- 1.20 The forested area has been shrinking under the onslaught of agriculture. Around the edges of the Palo Seco protected forest are approximately 23,000 hectares of Orey

and 564 hectares of mixed forest, which are threatened by their position along either side of the Chiriquí Grande-Almirante highway. Despite the threat to the Orey forest from colonization, penetration levels are still low. On the other hand, there is ample labor available nearby for exploiting it. No inventory or economic assessment of the forest has been made, and it has not yet been subjected to large-scale development, although it could supply the national market if properly managed. There are also opportunities for local people to make use of forest byproducts. Successful activity in this sector, however, will require strengthening of the regulatory body, ANAM, in its capacity to promote environmentally sustainable economic activities and in its ability to exert adequate control and supervision to prevent illegal cutting in forests and protected areas.

- 1.21 **Agriculture.** With the exception of banana growing, agriculture is underdeveloped: farming occupies 21% of the surface area. The area of arable land amounts to 97,354 hectares, where farms are organized as open *fincas* or plantations of essentially unrestricted use, and where most of the province's people live. About 19,000 hectares are planted in annual and perennial crops, with very little assistance from the MIDA, which has virtually no presence as the regulatory body. Of this total, 15,751 hectares are devoted to perennial crops (banana and plantain) including 12,000 hectares of banana planted by BFC, with the remainder divided among six independent banana growers, and plantations of plantain and cocoa. Seasonal crops occupy a total of 4,091 hectares, and include basic grains such as rice, roots and tubers, as well as yams, yucca and garden produce.
- 1.22 Production involves four basic models: (i) banana plantations, represented by BFC; (ii) market farming, represented by small and medium-scale independent producers who use machinery and are capable of adopting new technologies; (iii) traditional agriculture, mainly subsistence, involving generally small producers (in some cases with extensive holdings of low-grade land); and (iv) indigenous farming, where the intensity of natural resource use is low. Of the 4,705 farms listed in the 2001 agricultural census, 32% have less than one hectare, while the remainder have between two and 30 hectares.
- 1.23 Livestock raising is extensive, at a density of about one animal per hectare, which is comparable to the national average. This sector occupies 39,246 hectares, consisting of natural, traditional and improved pasturelands (7,418 hectares). The activity is concentrated in the vicinity of Changuinola, along the highway to Almirante and in an area near Chiriquí Grande. There is little livestock activity on the islands. In addition, there are 12,083 hectares of scrubland with no defined use that are being reserved for future use.
- 1.24 **Tourism.** While the region's tourism potential cannot be compared with that of other zones in the country, it does offer possibilities for specialized tourism development on the islands as well as on the mainland. This potential, however, is intimately dependent on finding ways to coexist with nature, which means that conservation and proper management of natural resources are a strategic importance. To develop this potential, it will be essential to upgrade the capacity of

- IPAT as the regulatory body, and to prepare a tourism development plan covering the various existing possibilities and identifying tourism circuits equipped with minimal facilities for visitors, while at the same time taking into account the area's carrying capacity, so as to avoid damaging natural resources and the environment. This will require training for guides and operators, and endowing the IPAT with rules and regulations for tourism management. Institutions such as ANAM and AMP also play an important role in natural resource and coastline management.
- 1.25 Tourism activity is concentrated in the archipelago, especially on Isla Colón, which is the departure point for visits and excursions to surrounding sites. The attractions are mainly the beaches and the natural landscape, which means that, without proper planning, tourism could exert pressure that will ultimately destroy the natural quality of the area. Adventure tourism is also being developed along the rivers, as an alternative to the beach. These two resources are relatively close to each other, a fact of considerable comparative advantage.
- 1.26 **Fishing.** Subsistence or artisanal fishing was traditionally the main activity on the islands, and especially in the archipelago of Bocas del Toro and the Chiriquí lagoon. The subsistence fishery is now under threat from over exploitation and lack of regulation, which have led to a decline in existing stocks. Significant changes have been noted in marine and in-shore resources, and there have been significant declines in some species, including turtles, conches, lobster, octopus, crabs and sea urchins, all of which were traditionally of commercial importance of the region. The diversity of species in coastal waters is also an attraction for sport fishing, which is becoming increasingly important as a tourist activity. As a result, the diagnosis recommends that, rather than attempting to increase the catch, it should be maintained at current levels to avoid exhaustion of the resource, and the resulting unemployment, while stepping up research into mariculture or the breeding and harvesting of marine species.
- 1.27 **Economic diversification.** The diagnosis indicates that, despite the limitations, there is potential for diversifying agricultural output, in terms of improving existing agricultural methods and diversifying into other sectors such as forestry, tourism and fishing. There is a group of producers that, with proper technical and financial assistance, could earn an adequate return from their activities and could move on to diversification, including organic farming for export. In the livestock sector, there is a potential for improvement by moving from extensive to intensive and more technically sophisticated operations. Other opportunities for diversification lie in exploiting the potential national and international markets. Nevertheless, agriculture, tourism and fishing must all compete with the rest of the country.
- 3. Lack of urban development planning and scarcity of basic services and infrastructure**
- 1.28 The Changuinola district has been experiencing rapid population growth, thanks to migration and, more recently, the cessation of oil transshipment activities in Chiriquí Grande and construction of the highway linking the province with the rest

of the region and the country. In the absence of adequate urban planning, the pressures of growth are increasing, particularly in the City of Changuinola, where settlement is spontaneous and uncontrolled. The trend of expansion is towards the Southeast, along the road to the port at Almirante, where there is a natural barrier in the form of the Changuinola River. At this point there is a railway bridge, which is used by local residents to a limited extent as a pedestrian and vehicle bridge (it has only one lane, and has been fitted with planks to facilitate vehicle traffic). This bridge, which was built more than 20 years ago for the banana industry, constitutes a significant danger. Restrictions on its use have increased transport costs, which has constricted commercial traffic in the area and affected the economic development of the region.

- 1.29 When it comes to the district of Bocas del Toro and Chiriquí Grande, the lack of urban planning is worsening the problems caused by urban expansion, including solid and liquid waste disposal and demand for basic services. People have been leaving Chiriquí Grande, because its economic base is very weak, despite the port facilities run by the PTP (Petro-Terminal de Panamá). With the inflow of tourists, a secondary market in real estate has recently emerged in the region, together with businesses offering food and services, as well as microenterprises making handicrafts for sale to tourists.
- 1.30 Both the coverage and the quality of basic services in the region are inadequate. Census results indicate the following percentages of dwellings without services: drinking water (17%), garbage collection (45%), indoor sanitary facilities (42%), electricity (32%). Systems of wastewater collection and garbage disposal and treatment are also inadequate. Electricity supply is high-cost (diesel generation) and has a coverage of only 61%. There is good documentation on the zone's existing infrastructure in terms of services, transport, ports and airports, and communications, as well as its significant hydroelectric potential.
- 1.31 Infrastructure is still inadequate, and will require short and medium-term investments, particularly for the bridge over the Changuinola River. Services under municipal responsibility, in particular the handling of solid wastes, are only beginning to attract private enterprise, and rural aqueducts are maintained by the community through management boards, which however suffer from a lack of training. There are various models for providing public services, but no involvement by the regulatory entity. Nevertheless, there is a tradition of paying for certain public services, induced by BFC and other private operators, which should be maintained and encouraged.

C. Community demands and the need for a sustainable development strategy

- 1.32 Among the rank and file of the community there is widespread concern to internalize the development process and lessen the local economy's dependence on bananas. Sparked by severe problems with basic services and the failure to address essential local needs, there were community protests against the central government and a call for a general strike throughout the region, supported by the rank and file

and the local authorities. This prompted the government to look for solutions to meet the community's demands.

- 1.33 If the region is to develop, the currently fragile economic, environmental and social balance will have to be strengthened. Current economic trends point to uncontrolled forestry and livestock activities in the central cordillera, encroachment by the farming frontier into protected areas, disruption of coastal marine ecosystems (mangrove swamps, meadows, coral reefs, etc.), inadequate exploitation of fishery resources and a haphazard approach to development of the tourism sector and the major towns. These factors have unleashed a process of uncontrolled development that threatens the sustainability of the region's environmental attributes, its cultural wealth and its natural resources.
- 1.34 The initial diagnostic studies for the program as well as the requests received from the Provincial Technical Board and the office of the provincial governor, the community goals and wishes conveyed by the local NGO *Coordinadora*, and the participatory workshops held during preparation of the development strategy have all confirmed the issues and priorities indicated by the community and the regional authorities, which include social and economic aspects as well as those relating to infrastructure and basic services (**see the technical files**). The solution to these problems, as identified by the authorities and the community, will require a **sustainable development strategy** for the region and an associated **action plan** for the short, medium and long term, that will strengthen regional and local institutions involved in the area's development as well as rationalize public investment and encourage private sector participation.

D. The baseline scenario

- 1.35 Implementing the sustainable development strategy for Bocas del Toro requires preparation of a current scenario and the visualization of a desirable future scenario. Taking the sectoral diagnoses as a starting point, a characterization was prepared that included a baseline for defining the initial scenario, which can be summarized as follows:
- 1.36 **Management capacity and forms of participation.** The current situation is characterized by (i) a lack of instruments for guiding development; (ii) a weak administrative structure, with no coordination of functions; (iii) inadequate mechanisms for citizen participation; and (iv) great ethnic and cultural diversity, with pronounced welfare differences.
- 1.37 **Natural resources and productive systems.** The current situation can be characterized as follows: (i) inefficient protection and management of protected areas; (ii) vulnerability to natural disasters; (iii) an undiversified economy; (iv) high costs for factors of production and low productivity; (v) conflicts over land tenure; (vi) absence of technological innovations; (vii) depletion of coastal marine resources; and (viii) little exploitation of the tourism potential.

- 1.38 **Infrastructure and basic services.** This sector is characterized by: (i) the concentration of population and lack of planning for the provision of services, and (ii) low living standards.

E. The desirable sustainable development strategy and scenario

- 1.39 Implementing the sustainable development strategy also requires visualizing a desirable future situation, as well as the strategic actions that will help to move from the current to the desired situation within a given timeframe. For this purpose, different development scenarios were analyzed in a participatory way, and a desirable development scenario was agreed: this calls for measures to deal with a potentially significant downturn in the banana industry, despite the likely increase in mechanization, and placing greater emphasis on economic diversification.
- 1.40 For the selected scenario, the outlines of the development strategy were prepared, together with a plan of action. A baseline was defined, with key indicators that will be used for monitoring and evaluating the program. Those indicators include: (i) income and employment levels; (ii) export diversification; (iii) coverage of basic services (drinking water, electricity, sanitation); (iv) level of private investment; (v) forest cover; (vi) level of citizen participation; and (vii) management plans in protected areas.
- 1.41 The strategy starts from the basic principle that activities and investments must be of direct benefit to the communities. There is no intention to provide or subsidize services or infrastructure to reduce production costs for BFC or any other business. The foregoing implies developing agendas for dialogue between the government, BFC and PTP, in order to negotiate mechanisms for transferring public services and returning lands under concession (*fincas*) so that they can be devoted to other crops or uses.
- 1.42 The action plan summarizes the strategic actions or projects scheduled over a specific timeframe, and calls for a series of actions over the short-term (five years), medium term (10 years) and long term (15 years), for meeting each of the agreed strategic objectives for change (**see technical files**).

II. THE PROGRAM

A. Design of the program within the strategic framework

- 2.1 Given its size and complexity, implementing the sustainable development strategy will take time and will require integrated and parallel activities, public and private, on a variety of fronts, involving domestic and international funding from various sources, including the Bank.
- 2.2 Consequently, from among the actions called for in the strategy and action plan, a selection will be made of those that are considered of highest priority in the short term, with the emphasis on establishing and consolidating institutional and regulatory arrangements. The actions selected for the program, under the strategy, are described below, under each of the components. The program is conceived as a development operation with a high degree of local participation for launching implementation of a strategy that, based on sustainable management of natural resources, will promote and support change through specific actions. The program will finance the priority solutions contained in the strategy and its action plan and will allow for complementarity and synergy with other projects of the Bank and other agencies (see paragraphs 2.39 and 2.40). In addition, the **lessons learned** during execution of this program and those from other projects will be applied (**see technical files**).
- 2.3 This operation will be implemented in two phases, through a **multiphase program**. Phase I (three years) will establish the participatory bases—institutional, operational and productive—together with pilot projects and other investments selected by the community, as part of the strategy. Phase II (five years) calls for additional investments of greater scope, within a strengthened institutional framework, and consistent with the strategy, drawing upon lessons learned during the first phase, from the pilot projects and the application of participatory decision-making mechanisms.

B. Program objectives

- 2.4 The principal objective is to launch implementation of the sustainable development strategy for Bocas del Toro, supporting priority actions and investments of economic, social and environmental benefit that will help, in the short run, to foster conditions for the sustainable development of the region. Achieving that objective will require: (i) strengthening governance, through effective management instruments for building institutional capacity for economic, social and environmental management at all levels; (ii) promoting and facilitating sustainable economic activities of high social and environmental benefit for the region, and supporting them with investments in the productive sectors; and (iii) meeting the needs of the population, in terms of access to basic services and infrastructure. A summary of the purposes, goals and indicators of the program is presented in **Annex I**.

C. Description of the program

- 2.5 The program is structured in three components: (i) **strengthening management capacity**; (ii) **sustainable management of natural resources and productive development**; and (iii) **basic services and transport infrastructure**.

1. Strengthening management capacity (phase I, US\$3.54 million)

- 2.6 **Expected phase I outcomes.** Consistent with the development strategy, it is expected that by the end of the first phase the situation will have shifted: (i) from a weak administrative structure to a set of institutions that will promote sustainable development; (ii) from weak technical and management capacity to a set of institutions with the capacity to take action; and (iii) from little civil-society involvement to a coordinated and participatory management system (**technical files**).
- 2.7 Financing will be targeted at creating an institutional and organizational capacity at **three levels: local, financial and national**. The activities, the technical assistance and the studies that will be financed under this component are described in **Table II-1**, and will be essential inputs for the other two components, and for moving on to phase II.

Table II-1. Component 1 technical assistance and studies		
ACTIVITIES	Technical assistance (advisory support, training, equipment)	STUDIES
Local level (US\$1,850,000)	Institutional strengthening of municipalities (Changuinola, Isla Bocas, Chiriquí Grande) Strengthening the organizational and participatory capacity of civil society including women (producers' associations, community groups, water boards, NGOs, etc.)	Urban land-use planning (Changuinola, Almirante, Chiriquí Grande, Isla Bocas)
Provincial level (US\$1,250,000)	Strengthening the provincial government Strengthening the provincial directorates of key institutions (ANAM, MIDA, IPAT, AMP, as well as MOPT, IDAAN, Health etc.)	
National level (US\$420,000)	Support for the committees negotiating agendas with BFC and PTP Support for the Executive Secretariat of the Panama-Costa Rica Binational Commission	

a. The local level (municipalities, communities and grassroots organizations)

- 2.8 **Technical assistance (advisory services, training and equipment)** will be provided at the local level to **strengthen management capacity and service delivery in the municipalities** of Changuinola, Chiriquí Grande and Isla Bocas, by (i) improving systems of administration and service to the public; (ii) improving the rate-setting and billing system for municipal services; (iii) revising or preparing standards and regulations for public services, transport and communications;

- (iv) training, creation and management of computerized databases, including the upgrading of computer equipment and facilities; and (v) training in the participatory approach to planning, programming and selecting priority activities and projects. To give these municipalities the capacity to address the major, long-term problems of **urban planning, studies** will be financed to prepare urban development plans for Changuinola, Almirante, Chiriquí Grande and Isla Bocas.
- 2.9 The component also includes **technical assistance (advisory services, training and workshops)** for enhancing civil society **organization and community participation**, focusing on gender issues, producers' associations in the agriculture, fishery, forestry and tourism sectors, community associations, water boards, NGOs etc., so that each, within its area of activity, can identify priorities, suggest solutions, accept responsibilities and take decisions, as part of the participatory process. Technical assistance activities will include promotion, organization, training, workshops and outreach services.

b. The regional or provincial level

- 2.10 **Technical assistance** will be provided for: (i) administrative and operational strengthening of the **regional offices** of ANAM, AMP, IPAT and MIDA, through training for officials (training will also be provided for other institutions participating in the program under contract, with the Ministry of Transport, IDAAN, Ministry of Health, etc.), consulting services, support for the preparation of plans and regional programs, creation and management of databases and, in the case of IPAT and AMP, legal advisory services for revising and preparing standards and regulations; and (ii) strengthening the provincial governor's office to serve as the two-way communications link between local governments and organizations and the national agencies with responsibility in the region, participate in the binational agenda in the province, and suggest and coordinate improvements in public safety plans, through MEF contracting of consultants, computer systems (hardware and plant upgrades) and logistical facilities.

c. The national and binational level

- 2.11 At the national level, **technical assistance** will be provided to the MEF in coordination with the respective agencies for development of agendas for strategy dialogues with the private sector, in particular BFC and PTP, for all matters pertaining to the drawing up of guidelines for the transfer of utility services they are providing (water, energy, garbage collection), the use of ports and bridges, road maintenance, and for developing and introducing instruments and incentives to mitigate and control impacts on water resources, soil, forests and seacoasts. This assistance will involve **advisory services** for putting together the negotiating commission, to prepare specific studies and to develop the work plan.
- 2.12 At the binational level, **technical assistance** will be provided to the Executive Secretariat of the Binational Commission of the MEF, the provincial governor's office and the institutions involved, for implementing the Costa Rica-Panama

border agreement agenda and for the areas of customs control, border crossings, labor and security, environmental control, animal and plant health, etc., during development of the specific binational project that is now under preparation with Bank support.

2. Sustainable management of natural resources and productive development (phase I, US\$4.33 million)

- 2.13 **Expected phase I outcomes.** Consistent with the development strategy, at the end of the first phase, the situation is expected to have evolved:: (i) from unregulated agricultural encroachment into protected areas to rationalized exploitation, concentrated in areas recommended by the Indicative Land Use Plan (PIOT); (ii) from damaging forestry practices to sustainable forestry management; (iii) from an undiversified economy to a diversified economy, based on the local natural resource potential; (iv) from the depletion of coastal marine resources to their sustainable use and development; and (v) from under-exploitation of the tourism potential to its sustainable exploitation.
- 2.14 Phase I will focus on creating management capacities for the productive use of natural resources in a sustainable manner, and for reducing vulnerability to natural hazards. **Priority will be given to the following sectors:** (i) natural resource management and the prevention and mitigation of natural hazards; (ii) development, commercialization and diversification of agricultural and forestry activities; and (iii) conservation of the subsistence fishery and development of sustainable tourism. Financing will be provided for: (i) **advisory services and studies**; (ii) experimental **pilot projects**; and (iii) small demonstration projects selected by competition, in accordance with criteria established in the Operating Regulations. The pilot projects have been designed to adapt innovative mechanisms for use in the area (with acceptance of the inherently greater risk) and to produce useful experience for phase II. If they are successful, they will be replicated, taking advantage of the lessons learned during their execution.
- 2.15 This component will finance **advisory services, studies, pilot projects** and different **categories** of eligible projects, as described in Table II-2.

TABLE II-2. Component 2 advisory services, studies and investments				
ACTIVITIES (US\$4,240,000)	TECHNICAL ASSISTANCE		INVESTMENTS	
	ADVISORY SERVICES	STUDIES	PILOT PROJECTS	ELIGIBLE CATEGORIES (based on demand)
Natural resource management and natural disaster prevention and mitigation	Organization and preparation of communities, including women and children, to reduce the risk of natural disasters	Identification and proposal of mechanisms to pay for environmental services		Restoration of critical areas associated with micro-watersheds and rural roads Co-management of protected areas
Development and diversification of farming and forestry activities	Strengthening the business management capacity of farmers and small producers, with special attention to women		Modernization production and marketing of plantain Improved cattle feeding Sustainable forestry	Sustainable productive activities in PILA buffer zones in accordance with local land-use plans Small agroforestry projects
Conservation of the subsistence fishery and development of sustainable tourism	Subsistence fishing development model Census of subsistence fishermen and registry of fishing boats Training program and tourism culture (pilot)	Management plan for coastal marine areas Ecotourism carrying capacity and tourism management plan	Introduction of new fishing techniques and strengthening the marketing network for fishery products	Tourist information centers Craft markets Basic infrastructure for tourism circuits Community wharves

a. Natural resource management and the prevention and mitigation of natural disasters

- 2.16 A pressing need here is to restore protected areas that are now being degraded through improper use of resources, and to improve the protection of those areas, with community involvement, so that the region's comparative advantages can be exploited and its natural resources can be productively managed. Financing will be provided for **one consulting project** and **one study**: (i) advisory services for the 10 communities at highest risk, taking into account initiatives already existing, to increase their capacity to foresee, mitigate, monitor and manage the most common **natural hazards** in the region (flooding, earthquakes and landslides), with the involvement of women and youth as an integral part of the community development process; and (ii) a study to identify mechanisms for paying for **environmental services**.
- 2.17 Categories of **projects eligible for funding**, based on community demands, and for which an indicative sample is available, are: (i) **restoration of critical areas** associated with micro-watersheds and rural roads that originated as lumbering trails, up to a maximum of US\$70,000 per project; and (ii) **co-management of protected areas** with community participation, to a maximum of US\$30,000 per project.

b. Development and diversification of agriculture and forestry activities

- 2.18 **Advisory services** will be funded to strengthen the business management capacities of farmers and small producers (numbering about 1,350), with special attention to women, to encourage a commercial approach to production and to increase the number of entrepreneurial producers, through training courses and on-site technical assistance. Training courses and technical assistance will be provided for two years under phase I.
- 2.19 Feasibility studies are also in hand for financing the following **pilot projects**: (i) modernizing the production and marketing of **bananas**, a product that is in high demand, for the benefit of 400 producers with plantations of between 3 and 12 hectares; (ii) improving **cattle feeding**, which will directly benefit producers on 16 farms of between 10 and 50 hectares in Changuinola and Chiriquí Grande, and will indirectly benefit a further 100 farms; and (iii) **sustainable forestry** for small-producer organizations in two Sustainable Production Areas (APS) of between 150 and 200 hectares each for phase I (total potential demand is estimated at 10 APS).
- 2.20 Consistent with community demand and the criteria in the Operating Regulations, financing may also be provided for the preparation and implementation of **land use plans in buffer zones around the protected areas**, in cooperation with the organized communities in those zones, particularly the Park (PILA) and the agencies ANAM and MIDA. Projects will include sustainable economic activities such as small agro-forestry projects that have demonstrated their success in other areas and are suitable to conditions in Bocas del Toro, that offer sustainable mechanisms for generating income for producers and communities, and that will contribute to conservation of the protected areas. Maximum eligible cost will be US\$120,000 per project. There is an indicative sample of these eligible projects.

c. Subsistence-fishery conservation and sustainable tourism development

- 2.21 Financing will be provided for advisory services, studies, pilot projects and small projects proposed by the communities that are consistent with the criteria in the Operating Regulations. **Advisory services** will include: (i) a **census of subsistence fishing families and a registry of fishing vessels**, for use in characterizing the subsistence fishery and to improve administration of local fishing permits by the AMP. The census will provide the basis for subsequent preparation of a management plan for coastal marine resources, a fishery policy, as well as a complete inventory of fishing vessels, nets and infrastructure, plus a survey of fishing families to determine production and marketing costs (fuel, ice) and other costs, fishing income, other sources of income, etc. (the census will subsequently be extended to the entire province); (ii) development and implementation of a **participatory subsistence fishing model** as an aid to the sustainable management of the archipelago's marine resources, to be implemented by the fishing communities themselves; and (iii) **training and "tourism culture"** modules for

guides and operators, local businesses, municipal officials, community associations, etc., to improve the quality, productivity and security of tourism services. This pilot activity will involve two modules of six courses each during the first year of activity.

- 2.22 The following **studies** will be produced: (i) **management plan for coastal marine areas** using, inter alia, data from the subsistence fishery census; and (ii) a study of the **carrying capacity** of areas with tourism potential, including visitor statistics from sources such as businesses and airlines, surveys of hotels, restaurants, tour operators, etc., to come up with a detailed zonification, and the associated master plan for tourism management, based on simple and realistic projections.
- 2.23 Fishing projects and activities and microenterprise development will be promoted by financing a **pilot project** for introducing **new fishing technologies**, so as to rationalize that activity in order to enhance and diversify the local supply of fishery products with species that are now underused, while reducing pressure on traditional species and fishing zones. Funding will be provided for the purchase of equipment and facilities for three "fish aggregating devices" (FAD), ice-making equipment and training and technical assistance in use of the technology, for 70 members of fishing cooperatives. Once the results of this pilot project have been evaluated and determined to be favorable, the project could be replicated in the deeper offshore waters of the eastern part of the province, during phase II.
- 2.24 Depending on demand and adhering to the Operating Regulations, financing may also be provided for small projects in the following **categories**: (i) tourism information centers, to a maximum of US\$25,000; (ii) craft markets, to a maximum of US\$130,000; (iii) basic infrastructure (sanitary services, information boards or signage etc.) for tourist attractions, up to US\$61,000 per project; and (iv) small-scale community wharves, up to US\$32,000 per project. There is an indicative sample of projects in these categories. Among other eligibility criteria, the projects will have to be located along a defined tourism circuit, and near major sites to avoid scattering them too thinly. Encouragement will be given to the planning, management and development of products and activities relating to sustainable tourism, such as ecotourism projects in the national parks.

3. Basic services and transportation infrastructure (phase I, US\$7 million)

- 2.25 **Expected phase I outcomes.** Consistent with the strategy, at the end of the first phase, the situation is expected to have moved from a basic infrastructure deficit to an infrastructure of better quality.
- 2.26 This component will also meet the immediate needs expressed by the community: (i) improve the coverage and quality of water and sewage services; (ii) build a bridge over the Changuinola River and improve feeder roads; (iii) solid waste management and disposal, including final disposal at suitable sites. The studies, specific projects and pilot projects, and the categories of projects eligible for financing under this component are shown in Table II-3.

Table II-3. Component 3 studies and investments			
Activities (US\$7 million)	Studies	Investments	
		Specific projects or pilot projects	Categories of eligible projects (based on demand)
Transport	Preinvestment studies (eligible, demand-based)	Bridge over the Changuinola River (specific project)	Road rehabilitation
Energy		Wastewater treatment with artificial lagoons	Rehabilitation of drainage facilities
Water and sewers		Isla Colón solid waste management	Integration of electric energy systems
Sanitation			Remote rural electric systems
			New water and waste disposal projects
			Water and sewer system upgrades

2.27 Specifically, financing will be provided to build a bridge over the Changuinola River, based on studies by the MOP, as well as for the following pilot construction projects: (i) wastewater treatment for Chiriquí Grande, using artificial lagoons, to connect 312 homes and treat 250 liters per day; (ii) collection and disposal of solid wastes on Isla Colón, at a rate of 3.27 tons per day, thereby eliminating the wastes that are not now being collected. Designs and feasibility analysis have already been conducted for these projects.

2.28 Depending on community demand and the Operating Regulations criteria, the following **categories of projects** will also be eligible: (i) road rehabilitation, up to US\$500,000 per project; (ii) rehabilitation of drainage structures and small bridges, up to US\$150,000; (iii) integration of electric energy systems into the existing grids (Bocas del Toro and Chiriquí Grande), up to US\$10,000; (iv) remote rural electric energy systems, up to US\$30,000; (v) small-scale drinking water and waste disposal projects, up to US\$90,000; and (vi) upgrading of existing water supply systems and sewers, up to US\$90,000. For larger or longer-term investments, funding will be provided only for preinvestment studies and efforts to obtain financing from other sources and in support of phase II.

D. Program size and phases

2.29 Experience has shown that in bringing sustainable development projects to maturity, given their complexity, there must be an initial stage devoted to institutional arrangements, capacity building and operating processes.

2.30 **Phase I of the program (US\$16.9 million).** This investment figure for phase I is a conservative estimate, given the needs that must be covered under the three components, and considering: (i) the time needed for initial capacity building; (ii) expected annual absorption capacities; and (iii) experience with similar projects. Moving from phase I to phase II will require analysis of lessons learned and indicators established in phase I.

- 2.31 **Phase II of the program (US\$30 million).** This is designed to consolidate the mechanisms for institutional, financial and environmental sustainability of the processes initiated under phase I, and to promote and expand investment in the productive development and infrastructure components, in order to meet the medium-term goals established in the Sustainable Development Strategy and Plan of Action. Building on the foundation created in phase I, phase II will maintain the program's component structure and, if feasible, funding of the components would be weighted as follows:

Multiphase Program Components/Activities (Amounts include administration and supervision, contingencies and financing costs)	Phase I (3 years) US\$16.9 million		Phase II (5 years) US\$30 million		Total US\$46.9 million	
	US\$	%	US\$	%	US\$	%
1. Strengthening management capacity	4.0	60	4.0	40	8.0	100
2. Sustainable management of natural resources and productive development	4.9	30	12.0	70	16.9	100
3. Basic services and infrastructure	8.0	36	14.0	64	22.0	100
Total	16.9	38%	30.0	62%	46.9	100%

E. Phase II triggers. Phase I outputs and outcomes that will activate phase II

- 2.32 To measure progress under the program and activate phase II, an interim assessment will be made of phase I after 70% of the loan proceeds have been committed or 50% have been disbursed. That evaluation will focus on the performance of the indicators by component in accordance with the logical framework matrix, and as described in the following paragraphs. When 80% of the indicator targets have been achieved and at least 75% of the loan has been disbursed the program could proceed to phase II.
- 2.33 **Component 1.** This calls for creating a decentralized management capacity, with a strategic vision for fostering sustainable development schemes in the region. **Indicators:** (i) district and provincial committees created and functioning with their respective rules of procedure; (ii) municipalities have implemented plans for administrative and financial improvements, and regional offices of the ministries have implemented action plans; (iii) urban development plans have been prepared, with proposals for implementation; and (iv) an agenda has been agreed for the transfer of basic services provided by BFC.
- 2.34 **Component 2.** This calls for designing and negotiating the foundations for sustainable economic development in agriculture, forestry, fishing and tourism, so as to maximize the region's comparative advantages and enhance its competitiveness with the rest of the country and with neighboring Costa Rica. **Indicators:** (i) fishing boats registry established; (ii) coastal waters management plan initiated, a carrying capacity study completed, and tourism management plan prepared and adopted; (iii) the four pilot agriculture, forestry and fishing projects

adopted and implemented, with cost-recovery arrangements for the different sectors; and (iv) mechanisms to pay for environmental services have been identified, with agreed proposals for their implementation.

- 2.35 **Component 3.** This calls for strengthening self-management capacity, and sharing responsibilities in addressing problems. **Indicators:** (i) the two sanitation pilot projects have been adopted and are under way; and (ii) infrastructure projects have been prioritized, designed and launched by the local and regional planning system, consistent with criteria in the Operating Regulations.

F. Program costs and financing

- 2.36 **Total cost and financing.** The estimated total cost of the program for the two phases is US\$46.9 million. Phase I will cost US\$16.9 million and phase II about US\$30 million. A breakdown of costs by expenditure category and funding source for phase I is shown in Table II-4. The Bank will finance 90% of the cost of phase I (US\$15.2 million) out of its Ordinary Capital, in U.S. dollars from the Single Currency Facility. The government will contribute 10% of the phase I cost, US\$1.7 million. The proposed terms of the Bank loan are: (i) amortization period 20 years; (ii) disbursement period three years; (iii) three-year grace period; (iv) variable interest rate; (v) credit fee of 0.75%; and (vi) 1% inspection and supervision fee.

Table II-4. Cost and financing table - (US\$)				
Expenditure item	IDB	Local	Total	%
I. Administration and supervision	1,621,000	179,000	1,800,000	10.7%
1. Coordination and Executing Unit (UCEP)	1,161,000	179,000	1,340,000	7.9%
2. Audits, interim and final evaluations	200,000		200,000	1.2%
3. Evaluation and monitoring system	260,000		260,000	1.5%
II. Direct costs	13,346,000	1,521,000	14,867,000	88.0%
1. Strengthening management capacity	3,204,000	331,000	3,535,000	23.8%
2. Sustainable management of natural resources and productive development	3,817,000	515,000	4,332,000	29.1%
3. Basic services and transportation infrastructure	6,325,000	675,000	7,000,000	47.1%
SUBTOTAL	14,967,000	1,700,000	16,667,000	98.6%
III. Unallocated	81,000		81,000	0.5%
Contingencies	81,000		81,000	0.5%
IV. Financing costs	152,000		152,000	0.9%
1. Interest		-	996,000	
2. Credit fee	-		184,000	
3. Inspection and supervision 1%	152,000	-	162,000	
TOTAL PROGRAM	15,200,000	1,700,000	16,900,000	100.0%

- 2.37 The Program Administration and Supervision category (US\$1.8 million) covers the following costs: (i) the UCEP, with staff, equipment and operating resources and logistical support during the three years of phase I, US\$1,340,000; (ii) audit activities during the three years, US\$100,000 and interim and final evaluation,

US\$100,000; (iii) evaluation and monitoring activities, including installation of the monitoring and evaluation system (EMS), US\$160,000, and technical assistance funding for the program, US\$100,000. Bank funding for this category under phase II will be lower.

- 2.38 For launching the program's priority activities, and whether or not the special contractual conditions have all been satisfied, **a special disbursement of up to US\$400,000 is recommended, once all the conditions precedent prescribed in the General Conditions have been met and the legal order creating and establishing the functions of the UCEP has been issued.** These priority activities include: (i) hiring support staff and contracting for basic equipment for the UCEP and strengthening the implementation scheme for the program's startup; (ii) hiring of consultants to develop action plans for ANAM, MIDA, IPAT and AMP; (iii) hiring consultants to develop urban land-use plans for the four cities; and (iv) hiring of consultants to strengthen community organization and participation.

G. The program's complementarity with other projects and lessons incorporated

- 2.39 **Relationship with other projects.** This program is directly related to the Biological Corridor, the National Land Administration Program (PRONAT) financed by the Bank and the World Bank, the National Environment Program (PAN), the Competitiveness Program (*Compite Panamá*), and the Central American Regional Environment Program (PROARCA, and in particular PROARCA/Costas) financed by USAID, which are now under execution, as well as PROARCA II, which will begin shortly. It also relates to the IFAD/SIF and GTZ indigenous-territory project (see **technical files**).

- 2.40 **Recent experience and lessons learned.** The Bank has experience with projects in natural resource management, rural development, sustainable development and rural poverty reduction. In the case of Panama there is the Darién Sustainable Development Program currently in progress (loan 1160/OC-PN). The proposed program will build on experience and lessons learned, both positive and negative, during execution of that project, which will serve as the conceptual point of departure. Benefit will also be derived from experience with other projects. The design of this operation has taken into account the lessons learned from similar projects of the Bank and other institutions, in particular those relating to the **Darién Program, the CBMAP, PROARCA and IFAD/SIF in the indigenous territory** (see **technical files**).

H. Bank and country strategy

- 2.41 The Bank's country strategy is focused on four priority aspects: (i) attacking poverty and improving equity; (ii) economic reforms that will spur competitiveness and growth; (iii) consolidating the regulatory, legal and institutional framework for sustainable growth; and (iv) institutional reforms to strengthen governance and improve transparency. The proposed operation is consistent with the strategy,

because it will promote sustainable development, by attacking the underlying factors of poverty, environmental degradation and vulnerability. The proposed activities are consistent with government plans, in particular those relating to social equity, territorial and social integration of the country, and reconciling the needs of growth with those of environmental sustainability.

- 2.42 Because the operation is focused in the border region with Costa Rica, it will contribute to implementation of the strategic lines established in the Puebla Panama Plan (PPP). It is consistent with the strategy for the Mesoamerican Sustainable Development Initiative (IMDS), which cross-cuts the PPP and will complement a portion of road building initiatives in Panama's Atlantic corridor. The operation is designed to capitalize on the wealth and the comparative advantages of the Mesoamerican region, by overcoming its historic infrastructure deficit and reducing its currently high indices of poverty and its vulnerability to natural disasters. In the context of the PPP and the Mesoamerican Biological Corridor on Panama's Atlantic Coast (CBMAP), the operation is of strategic importance of the region, because of the existing links between the two countries, the binational integration agreements, and the economic interdependence along both sides of the border, where there are important biological and water resources and a significant tourism potential.

III. BORROWER AND EXECUTING AGENCY

A. The decentralized implementation strategy for the program

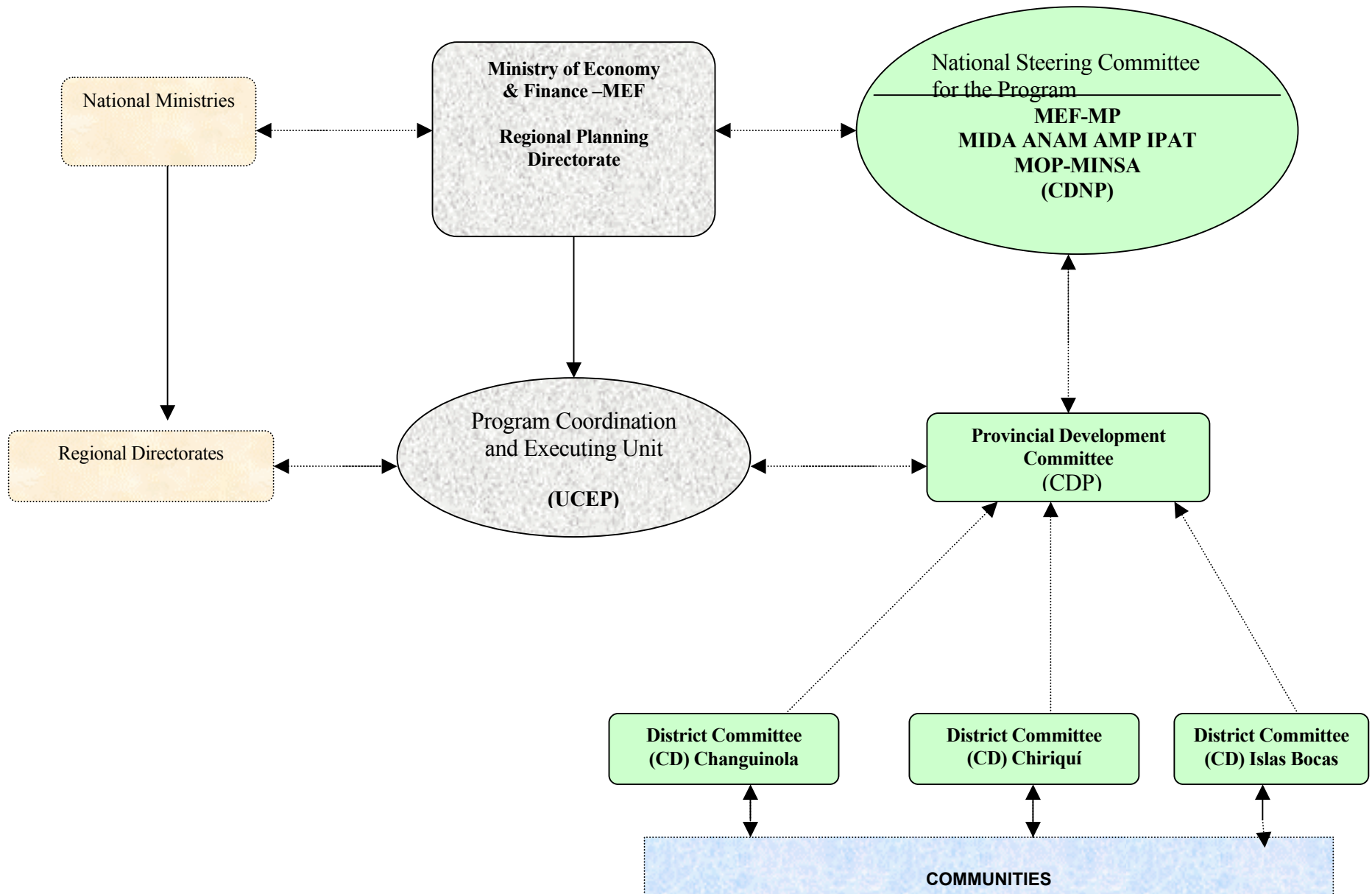
- 3.1 A decentralized execution strategy has been adopted for the program, recognizing that it is the local beneficiaries who have the greatest interest in the sound management of natural resources. Priority is therefore given to institutional strengthening, at the regional and local levels, as the cornerstone for the region's development. The implementation strategy implies: (i) strengthening existing institutional capacities in the region; (ii) enhancing the administrative and financial capacity of local governments and their ability to provide services; (iii) improving the operational management of the formal structures for political and administrative participation established in the Constitution; (iv) consolidating the principles and values of good governance with active participation by civil society, and ensuring representation of different cultures and ethnic groups; (v) involving civil society actively in decision-making mechanisms; and (vi) improving coordination of investment planning among the national, eventual and local levels.
- 3.2 Because this is a multiphase program, phase I will focus on strengthening the institutional, organizational and participatory aspects of execution, leaving in place a decentralization process that will allow for larger-scale investments under phase II, where decisions will be taken at the local level. In support of this ongoing process of strengthening and training, specialized consulting services will be contracted to support the Program Coordination and Executing Unit (UCEP) during execution of the program.

B. Institutional framework for the program

1. Borrower and executing agency

- 3.3 The borrower will be the Republic of Panama and the executing agency will be the Ministry of Economy and Finance (MEF) working through its Regional Planning Directorate (DPR). The UCEP will report directly to the DPR on all operational aspects of execution. The DPR will be responsible for direct supervision of the UCEP. The provincial government, the three municipalities and the relevant regional institutions will also participate, on the basis of contracts with the MEF. The regional-level agencies will be responsible for supervising all technical aspects of execution in their area of competence. **Presentation to the Bank's satisfaction of the interagency agreements signed between the MEF and ANAM, AMP, IPAT and MIDA, the three municipalities and the provincial government, setting out inter alia the responsibilities of each party, will be a condition precedent to disbursement of the loan.** In order to put into practice a decentralized and participatory management and execution scheme, the following operational structure has been agreed for the program, based on experience from other projects in execution (see graph).

MULTIPHASE PROGRAM FOR SUSTAINABLE DEVELOPMENT OF BOCAS DEL TORO
PARTICIPATORY PROGRAM EXECUTION STRUCTURE



2. Program implementation structure

- 3.4 **National Steering Committee for the Program (CDNP).** At the national level the CDNP will be established as the senior authority for the program, chaired alternately by the Minister of Economy and Finance and the Minister of the Presidency (MP), and including six national government agencies (MIDA, ANAM, IPAT, AMP, MOP, MINSA), two private sector representatives at the national level (tourism and agriculture sectors), a national NGO, three local members of civil society belonging to the Provincial Development Committee (CPD) and the Governor of the Province. This CDNP will oversee execution of the program and ensure compliance with policy guidelines and the development strategy. Its functions will include: (i) proposing general guidelines for budgeting the preparation of annual work plans (AWPs); (ii) approving consolidated AWP prepared and submitted by the CPD and prioritized in the three district committees; (iii) coordinating the efforts of State agencies and other donors; (iv) channeling political participation by the national authorities; and (v) reviewing the program's progress reports and financial statements. The CDNP may be convened by the Minister of Economy and Finance and the MP, at their own initiative or at the request of eight of its members; it will meet at least twice a year. The Director of the DPR will serve as the Secretary.
- 3.5 **Provincial Development Committee (CPD).** At the provincial level, a CPD will be set created, consisting of the Governor, three representatives of civil society (NGOs, producers, community members), for each district committee (CDs); one representative of each of the State agencies that have signed an agreement with the program and work in the province (nonvoting members), and the three mayors. It will be chaired by one of its voting members, elected by the committee. The committee will take its decisions by majority vote, and will exercise its responsibilities with due regard to the guidelines of the CDNP and the CDs, consistent with the Operating Regulations. Its functions will include: (i) consolidating and coordinating AWP for the program, on the basis of projects prioritized by the district committees; (ii) monitoring execution of the AWP, ensuring coordination among the municipalities and helping to seek solutions to execution problems; (iii) reviewing the annual reports and financial statements prepared by the UCEP; and (iv) reporting to the CDNP on presentation and implementation of the program's AWP. The committee will be convened by its chair, at his own initiative or at the request of 10 of its members, and will meet at least three times a year. The UCEP Director will serve as its Secretary.
- 3.6 **District Committees (CDs).** A CD will be constituted for each district, consisting of the mayor; a representative of each of the community's three ethnic groups; one representative of each production sector (agriculture, fishery, forestry, tourism); two union or NGO representatives, and the five *corregimiento* representatives of the respective district. It will be chaired by one of its members elected by the committee. The CDs will operate with the support of the UCEP, and their members will be selected from short-lists submitted to the UCEP by the organizations

concerned. The functions of the CDs will include: (i) a continual flow of information and consultations with the community to learn of its initiatives and project profiles; (ii) receiving project proposals submitted by the community after they are evaluated by the UCEP, in accordance with the Operating Regulations; (iii) prioritizing demand-driven projects in accordance with community needs and interests and with the development strategy devised, for concertation by the CPD; (iv) participating in the program monitoring activities and projects in their district and making recommendations as to their execution; and (v) making recommendations, at their district level, for including projects in the respective municipal investment plan. The CDs will meet at least three times a year. Meetings may be called by their chair, at his own initiative or at the request of eight of the members, with the support of the UCEP.

- 3.7 **Program Coordination and Executing Unit (UCEP).** This unit will be accountable to the Bank for administrative, financial, coordination and execution aspects, and will exercise management functions over the coordination, contracting, supervision and monitoring of program activities. Based in the city of Changuinola, the UCEP will consist of a Director, five professional staff, three district coordinators (one per district), and administrative support staff, and will have specialized consulting support as needed. The UCEP's functions will include: (i) coordination, supervision, monitoring and overall control of the program; (ii) helping the communities and municipalities to develop their projects; (iii) evaluating and reviewing the feasibility of projects submitted by the communities and municipalities; (iv) helping to develop the AWP; (v) presenting AWP's for CDPNP approval; (vi) preparing tenders, calling for bids and awarding contracts, in coordination with the agencies responsible; (vii) providing support to technical teams of the participating agencies to make sure projects are duly supervised; (viii) making disbursements, submitting account records, reporting on the revolving fund, and producing financial statements for the program; (ix) monitoring compliance with the conditions in the contract with the Bank and with the participating institutions, including an accounting and internal control system to keep detailed records on the use of resources; (x) handling program funds through specific commercial bank accounts, with separate accounts for the loan and the local counterpart contribution; and (xi) keeping the originals of supporting documentation on eligible payments under the program. **The appointment and hiring of core staff (UCEP Director, an administrative officer, three area coordinators in the UCEP) to begin implementing the program, using job profiles agreed with the Bank, will be a condition precedent to the first disbursement.**
- 3.8 **Institutions participating at the regional level.** The ministries will participate in program execution on the basis of bilateral agreements with the MEF or trilateral agreements, as the case may be, covering activities falling to their sector. Their responsibilities will be to: (i) devise, review and clear, together with the UCEP, terms of reference and tenders, before award or publication by the MEF; (ii) perform technical monitoring of work and consulting services contracted; and (iii) approve the quality of work and consulting services before disbursement by the

UCEP. They will also participate as members of the CPD to advise on coordination of the AWP and coordinating activities at the district level with their agencies' regional programs, to avoid overlaps, duplication or inconsistency of investments.

- 3.9 The functions of the agencies described above, as well as the execution mechanism, including the handling of funds, will be reflected in the Operating Regulations. Each of the committees will have its own internal rules of procedure. **Presentation of the Executive Decree establishing and defining the functions of the CDNP, CPD, CDs and UCEP will be a condition precedent to the first disbursement. (The decree is currently at a discussion-draft stage.)**

C. Program execution modality and components

- 3.10 For executing the program, the UCEP, with support from the DPR, will prepare an indicative Annual Work Plan (AWP) at the beginning of each year, showing the overall program amounts. The AWP will be distributed to the districts. On the basis of this indicative AWP the districts, through their CDs, will prepare their portfolio of projects and activities, based on community demands (see the section on operational execution). Once community needs and interests have been prioritized in the CDs they will be submitted to the CPD for coordination and consolidation with provincial-level agency activities. Once the AWP has been worked out with the CPD it will be presented to the CDNP for final approval, to proceed with implementation of the projects and activities. The CDNP-approved AWP will be distributed to all participants, and will be the basis of community and district monitoring of the program's execution and performance. If for budgetary or other reasons the MEF should decide to change the annual amount of those AWP, through the CDNP, the provinces and districts will be notified so that they can decide which projects or activities should be postponed in order to keep within the ceiling of the new AWP. The AWP for the first year is structured around projects in the initial sample, as shown in Tables II-1, II-2 and II-3, in line with priorities identified by the communities.

1. Operational execution of the program

- 3.11 Essentially, this program will support two kinds of activities: (i) technical assistance (including specific studies, training, short-term advisory services and longer-term consultancies, at the institutional or community level); and (ii) investments (one specific project, six pilot projects and projects in eligible categories, selected in accordance with demand).
- 3.12 **Execution of component I.** This is limited to technical assistance for advisory services, equipment and studies. The UCEP will be responsible for execution, in coordination with the direct beneficiaries, and with the support of the participating institutions for each sector. The UCEP will prepare draft terms of reference for activities, and review them with the final beneficiaries (national entities, municipalities, community organizations, etc.) so that they can be adjusted and approved before publication and award. Once execution begins, the corresponding

national institution will be responsible for technical monitoring of the activities, while the UCEP will monitor administrative aspects in accordance with the work schedule. The UCEP will be kept informed by the beneficiary about the quality of work, and will make no disbursement without prior approval by the beneficiary. If the beneficiary is a community, a civil society organization or municipality, the UCEP will monitor its efforts closely to ensure that the outcome is appropriate and feasible, as in the case, for example, of strengthening grassroots organizations, or administrative and financial consulting services for the municipalities and urban planning and development studies.

- 3.13 **Execution of components II and III.** These components will require the participation and coordination of all three levels of government, including the communities. As the first step in the program, tenders will be called for strengthening civil society, a contract that will involve three important activities: (i) promoting and publicizing the program locally; (ii) organizing and working with the communities to train them to present their initiatives and project profiles in accordance with the Operating Regulations; and (iii) technical assistance to the communities for preparing their proposals and monitoring their execution
- 3.14 With this technical support, the communities and municipalities will submit their project profiles to the UCEP (the UCEP will have a full-time technical officer in each municipality), which will check their initial consistency with the Operating Regulations. If this is positive, the technicians will pursue the project to the feasibility level. Feasible projects will be sent to the CD for inclusion in the priority list. The community will be notified of unworkable projects so that the necessary changes can be made. At the end of the year or every six months the CDs will review and prioritize feasible, evaluated projects in accordance with community and municipal needs, on the basis of the agreed development strategy. The prioritized projects will be submitted to the CPD to add to the AWP. The projects included in the approved AWP will be put to tender by the UCEP.
- 3.15 In putting projects to tender, the following basic criteria have been established for each proposal: (i) there must be a local contribution of at least 10% in cash, labor or kind, depending on the type of project; and (ii) there must be an agreement between the participants and the MEF setting out the responsibilities and the cost recovery mechanisms agreed with the community, especially in projects that involve the financing of equipment, as well as agreements on operation and maintenance mechanisms for all infrastructure projects, and the return of any incentives received to the community organizations, depending on the nature of the project.
- 3.16 All capital projects included in the program, including those at community initiative, will be subject to the above criteria. Projects that require more active intervention will be those that involve the municipalities directly, such as solid waste projects or others that require the municipality to make changes, approve new regulations, or introduce new fees. The UCEP will be responsible for monitoring compliance with these conditions, on the basis of contracts signed with the respective municipality. In the case of pilot projects or specific projects, the

requirements will be the same as above, with two differences: (i) when they are presented by the communities with a feasibility study, consultants will be hired to convert them into executable projects; (ii) those projects will not be replicated until a subsequent evaluation of their outcome and benefits has shown that they are successful.

2. Transfer of program funds

- 3.17 Funds will be transferred to the MEF, which will open a bank account in the name of the program, in which will be deposited any advances (revolving fund) for management by the UCEP. All contracts will be signed by the MEF. Disbursements for execution of the various activities will be made directly by the UCEP on behalf of the MEF, with the approval of the line institutions or the beneficiary communities, verifying the technical quality of the services or work performed.

3. Program Operating Regulations

- 3.18 The regulations establish the rules and procedures for executing program components, including criteria for eligibility, feasibility and project selection, procedures for preparing and evaluating AWP, procedures for the procurement and contracting of goods and services, and the methodology for evaluating and monitoring AWP and the financing ceilings per project. The MEF may amend the Operating Regulations with prior clearance from the Bank (a draft of the Operating Regulations has been reviewed and agreed on with the MEF). **The MEF is to demonstrate that the Operating Regulations agreed with the Bank have been adopted, as a condition precedent to the first disbursement of the loan.**
- 3.19 **Program beneficiaries.** The target beneficiaries are small-scale producers, their communities, municipalities, fishing associations, etc.
- 3.20 **Eligibility criteria.** The eligibility of projects and activities will be defined by the following criteria, among others: their contribution to environmental improvement; generation of income; community participation and organization, including gender aspects; their impact on reducing the factors of vulnerability; improving living standards in the communities; their contribution to binational integration; and their inclusion within the agreed regional strategy. In addition to these criteria, the Operating Regulations stipulate that, in order to be eligible, projects must comply with the following evaluation criteria.
- 3.21 **Evaluation criteria.** The Operating Regulations will contain eligibility criteria of a technical, economic, environmental, social and institutional nature for the categories of projects to be financed by the program. All projects must meet the requirements of technical, environmental, institutional, economic and financial feasibility, including the following: the net environmental impact must be positive; they must include activities to promote rural social development and reduced poverty; institutional management requirements must be consistent with local needs and conditions; investments involving businesses or farms must be economically

viable, with an internal rate of return of at least 12%; social projects must meet the least-cost criterion; projects must be financially sustainable; and municipal projects must serve to increase municipal revenues. To ensure an internal rate of return of at least 12%, guidelines will be prepared for the support agencies and the communities to use in formulating project proposals.

- 3.22 **Financial sustainability and cost recovery.** The financial sustainability of projects requires, first, that there should be a market and that they should produce a return, and secondly, for projects that will take one or two years to reach profitability, that funding can be provided by the program or shared with the beneficiary. In the case of projects where the beneficiaries are the general public or community organizations, sustainability will require that, from the initial design stage of the project, the community is prepared to pay for its maintenance and to support the required user charges, which may be collected by a consultant financed by the project until such time as the community is ready to assume this responsibility.
- 3.23 The financing will be provided on a shared-cost basis, depending on the type of project. In the case of projects on specific farms, experience with other projects in the region has been analyzed. That analysis showed that future revenues can cover a portion of the costs of the business/farm plan, and can play an important role in the management and redistribution of incentives, through their business/farm plans, supported initially by technical assistance under the program. It was decided to apply the following criteria in this case: (i) the producer must contribute at least 10% of the project costs, in accordance with the business/farm plan; and (ii) a producer who receives incentives must agree to return the value of inputs to his community for redistribution to other beneficiaries. Where the beneficiary is the general public, financing will be provided for up to 90% of the cost of studies and viable projects, and local governments will be strengthened to ensure their sustainability. For projects that involve equipment purchases, a mechanism will be agreed for allocating the respective costs. The program contains no mechanism for recovery of its own costs, but mechanisms will be explored for repaying costs to the communities themselves.

D. Evaluation and monitoring system (EMS)

- 3.24 The EMS will use instruments prepared during program formulation: the agreed development strategy; the PIOT; the action plan and the baseline established for environmental and socioeconomic aspects. The baseline includes measurable parameters of changes that can be used for monitoring the program in its two phases.
- 3.25 The UCEP will manage the EMS, which contains two subsystems: one for monitoring projects and program activities, and one for evaluating the program. The UCEP will conduct field visits for monitoring project execution, on the basis of progress reports from the various contractors. Data from these inspections, as well as other information from reports on results achieved, will be used in the general monitoring system.

- 3.26 The UCEP will produce a semi-annual monitoring report and an annual evaluation report, as well as the reports required by the Bank as described in this chapter. The UCEP, via the MEF, will also set up a website with information on the program, tracking its progress and outcomes. As part of ongoing monitoring, the UCEP will meet with the Bank no later than 30 April of each year, beginning in the first year of execution (launch meeting), in order to analyze progress, verify the indicators for activating phase II, and agree on actions to be taken in the following year.
- 3.27 The indicators, which will be agreed between the UCEP and the Bank, will be used for monitoring compliance with the objectives and targets in the agreed work plan. The progress of each component will be compared against the quantifiable objectives and targets previously determined for that component. The UCEP will prepare the monitoring reports, which must include the following: (i) a summary of work performed during the previous year, compared with the AWP; (ii) an analysis of compliance with the phase I requirements of this contract and the Operating Regulations; (iii) a list of activities for each component, with their evaluations, procurement and consultant contracting for the period; and (iv) an evaluation of the performance and progress indicators established for each component.
- 3.28 If these meetings find that adjustments to the program are necessary, the CPD will take appropriate steps to correct the shortcomings identified. For this purpose, the UCEP will present to the Bank the corrective measures that are to be taken and the schedule for doing so. Using the final evaluation results for phase I, the implementation and execution mechanism will be reviewed to make any adjustments necessary for phase II.

E. Reports and interim evaluation for initiating phase II

- 3.29 The UCEP will be responsible for systematically evaluating the program, and for preparing the respective reports that will be examined at the monitoring meetings. Those reports will be sent to the Bank, in accordance with the agreed work plan. The Country Office will be responsible for program administration, with support from the project team, and will conduct the periodic reviews. The UCEP will send reports and financial statements for the contract to the borrower, the CPD and CDNP, as well as to the Bank's Country Office. The UCEP will present the following reports.
- 3.30 **Initial report (program work plan).** The executing agency will present the program work plan, with an execution timetable for each program component and activity. This plan will include indicators, means of verification and assumptions for each case, and in particular those agreed as triggers for phase II of the program.
- 3.31 **Progress reports and monitoring meetings.** The UCEP will produce semiannual reports for each component, detailing the activities of NGOs, businesses or institutions participating in the program; and the program's financial statements. The UCEP will send reports and financial statements to the CDNP, the CPD and the Bank's Country Office.

- 3.32 **Interim evaluation.** The interim evaluation of phase I will be done when 70% of the loan proceeds have been committed or 50% have been disbursed. This evaluation will pay particular attention to the triggers agreed for moving on to phase II (paragraphs 2.32 to 2.35) and will make recommendations for continuing its activities. The various agencies, CDNP and CPD will also be invited to participate. An independent consultant will be hired (funded by the loan) to perform this evaluation, using all the mission and evaluation reports submitted during program execution. The MEF also will hire consultants to conduct a final evaluation of the program when 75% of the loan proceeds have been disbursed, which will review the indicators agreed for proceeding with phase II.

F. Procurement

- 3.33 The procurement of goods and related services, the construction of works and contracting of consulting services will be done in accordance with the Bank's procurement policy. International competitive bidding will be required for the purchase of goods in the amount of US\$350,000 or more, and for the contracting of works in the amount of US\$1.5 million or more. International calls for proposals will be used to engage consulting services costing over US\$200,000.
- 3.34 Procurement and contracting for amounts below those thresholds will be conducted in accordance with a simplified procedure that will be appended as Annex D to the loan contract. That special procedure will require local competitive bidding for goods and related services costing between US\$100,000 and US\$350,000; works contracts between US\$500,000 and US\$1.5 million, and consulting contracts between US\$100,000 and US\$200,000. Limited local bidding will be used for goods and related services of between US\$10,000 and US\$100,000; works of between US\$10,000 and US\$500,000; and consulting services between US\$5,000 and US\$100,000. Price shopping will be used for amounts below US\$10,000 for goods and related services, below US\$10,000 for works contracts, and below US\$5,000 for consulting services (see **Annex II**).

G. Execution and disbursement timetable

- 3.35 The execution period for phase I will be three years from the effective date of the loan contract. The tentative disbursement timetable is shown in Table III-1.

Table III-1: Estimated disbursement timetable (US\$000)					
Source of funds	Program year			Total US\$	%
	Year 1	Year 2	Year 3		
IDB (OC)	2,341	7,038	5,822	15,200	90%
Local	262	787	651	1,700	10%
Total	2,603	7,825	6,473	16,900	100%
% year	15.4%	46.3%	38.3%	100%	

H. Program audits

- 3.36 The program's consolidated financial statements will be audited by a firm of independent public accountants acceptable to the Bank (and are to be presented by the borrower within 120 days after the fiscal year-end). The MEF will present the annual consolidated financial statements for the program to the Bank and, consistent with Bank requirements, semi-annual reports on the status of the revolving fund and of the bank accounts used for holding resources from the loan and from the local counterpart contribution. The costs of external auditing will be covered by the loan. The Bank will review and approved in advance the process for selecting and contracting the independent audit firm, including the terms of reference for the proposed work. The audits will be designed to determine the degree of compliance with program targets and activities, as well as to give the executing agency the information needed for making adjustments during execution.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

- 4.1 One of the purposes of this program is to strengthen institutional structures at the three levels (national, provincial and municipal) so as to enhance communication and coordination in the planning of municipal and provincial investments and to expand civil society's role and participation in the process. The program's institutional feasibility is based on three elements: (i) lessons learned from other projects, and in particular the Darién Program for which the MEF is executing agency; (ii) strengthening participation by line institutions and municipalities; and (iii) direct participation by communities and beneficiaries. The lessons learned were helpful in designing the execution structure, and particularly the beneficiary participation mechanism for generating consensus on activities.
- 4.2 The project identification scheme therefore begins with the communities, which are responsible for seeking solutions and submitting and sponsoring projects. Most important, however, is the process of consensus building and dialogue among mayors in the CDs, subsequently in the CPD, and finally at the national level. No such process exists today, and introducing such a transparent approach at the three levels will strengthen governance and increase dialogue, communication and consensus building with the three levels of government, involving community participation. Strengthening the municipalities and the line institutions will enhance program execution, because they will be responsible for technical supervision of the works in their respective sectors. The institutions will be strengthened by giving them training and the tools for providing greater information and improving their systems so as to facilitate field supervision, while providing better answers to the community and greater technical support to the program. For its part, the UCEP will have the backing of the DPR of the MEF and the experience and installed capacity that the MEF has developed in administering Bank projects, thanks in particular to the Darién Program. This process is expected to begin during phase I and to be further strengthened in phase II.

B. Technical feasibility

- 4.3 As part of the program's design, an indicative land use plan was prepared, based on a study of the various areas and their potential use. The region was consequently divided into four zones, and priority was given to preparing land use plans for three municipalities. In addition, through the PRONAT/IBRD project, management plans were developed for protected areas, and the boundaries of these protected areas and the Ngöbe-Buglé territory were demarcated. This will make it possible to revise the proposed indicative land use plan and make the appropriate adjustments to the urban development lands of the municipalities.
- 4.4 The program will seek to apply the lessons from existing experiments with natural resource management and economic diversification. The combination of

appropriate productive practices and an awareness on the part of farmers, fishermen and producers about the importance of proper natural resource management and conservation has led to improvements in soil fertility, reforestation and the conservation of wetlands and coastal marine resources. The works to be financed, with the exception of the bridge, are neither major nor complex, and can be carried out by national firms and, in most cases, by local firms. The technical specifications for the works will be consistent with the standards set by the supervisory institutions, which will have to approve and supervise their execution, with program support. The MOP will be responsible for the Changuinola River bridge and improvements to feeder roads, and will use evaluation procedures and designs consistent with Bank requirements for projects of this kind. For minor works, the criteria and technical standards will be those applicable to similar projects in the country and in particular those of the SIF, which have been endorsed by the Bank and will be included in the Operating Regulations.

C. Socioeconomic feasibility

- 4.5 Given the nature of the program, there was no cost-benefit analysis of the program as a whole. Instead, a series of projects were identified that were typical of those put forth by the communities during the conservation workshops.
- 4.6 Given the characteristics of component 1 (strengthening management capacity), it was not subjected to feasibility analysis. During the preparatory mission, however, the usefulness and cost-effectiveness of these activities was confirmed. They will produce a series of unquantifiable benefits that will include: (i) communities that are better organized and more able to manage natural resources; (ii) communities in a position to reduce their vulnerability; (iii) improved natural resource management instruments; (iv) lower transaction costs for managing projects; (v) effective management instruments at the central and local level; (vi) stronger local and community management capacities; and (vii) expanded technical assistance and training.
- 4.7 The group of projects for components II and III were subjected to a financial evaluation (at market prices) to analyze the feasibility of the proposed systems, at the individual as well as the community and municipal level. The resulting internal rates of return (IRRs) for the sample vary between 16% and 183%, depending on the nature of the projects. In the specific case of the Changuinola River bridge, the MOP presented an economic analysis (efficiency prices) with an IRR of 65%, and indicated that tendering of the project will include design and construction in a single package.
- 4.8 Components II and III will generate direct and immediate benefits in terms of rural community development and natural resource management in the program's area of influence. These activities will result in: (i) higher returns to producers and municipalities; (ii) diversified production, by changing land use patterns; (iii) greater productivity through the introduction of soil conservation practices; (iv) market access; (v) greater competitiveness; (vi) reduced production and

transaction costs; (vii) proper forest management, including greater output of wood and non-wood products; (viii) reduced output losses thanks to improving post-harvest and marketing systems; (ix) the protection of biodiversity; (x) reduced erosion thanks to sustainable farming practices; (xi) less contamination of water sources; (xii) greater access to water, sewage and sanitation services; (xiii) better sanitary conditions; (xiv) lower volumes of solid wastes; and (xv) mechanisms to pay for environmental services. The social and environmental benefits generated by projects of this type were not estimated, which means that the IRR may be even higher. The return on technical assistance for agro-forestry projects, soil conservation and forestry is consistent with the results of similar studies for other countries in Central America, such as El Salvador and Honduras.

D. Distributional impact and poverty considerations

- 4.9 This operation qualifies as a poverty-targeted investment (PTI) on the basis of its geographic focus. The province has a population of 89,269 (2000 Census), and ranks as the second-poorest in the country, with low living standards and an annual growth rate of 1.9% in the last 10 years. Forty-four percent of the province's people live below the poverty line (56% in rural areas and 29% in urban areas), a figure higher than the national average. Given the program's rural focus, the entire rural population can be expected to benefit from it directly or indirectly.
- 4.10 According to the latest Human Development Report, Panama's Human Development Index (HDI) was 0.707 in 2000, showing the country to be a medium stage of development. On average, the HDI for municipalities in the target area is 0.582, which is well below the average for the country. The highest index for the area (Chiriquí Grande, 0.643) is still below the national average. Average per capita income for Panama in current balboas (year 2000) is \$2,377, while for the province it is only \$1,086.

E. Financial feasibility

- 4.11 The government has confirmed the high priority it attaches to development of the region, and has assured its commitment in terms of the counterpart contribution. In addition, it has earmarked US\$1 million in the 2003 budget for the startup of activities under the program, pending full compliance with the eligibility conditions of the loan.
- 4.12 The program itself will promote financial sustainability in its various components. At the municipal and regional level, where the beneficiaries are public, the program will strengthen institutions and enhance the capacity to generate greater municipal revenues, and will encourage the search for viable mechanisms to pay for environmental services. In this way, the program will help municipalities to accept real commitments for the maintenance of works, by strengthening their finances and their management capacity.

- 4.13 In the case of cooperatives and communities targeted for electrification, water and sewage works, the projects will be designed with acceptable systems of user fees to ensure adequate maintenance and to produce a small surplus for future repairs. When it comes to individual producers, entrepreneurs and local communities, the Operating Regulations makes support conditional upon financially sustainable practices and activities. It is expected that, once new productive practices are introduced on the basis of pilot experiments, producers and entrepreneurs will continue to use them and may even improve them, because they are financially attractive.

F. Environmental, social and ethnic-cultural viability

- 4.14 This operation is designed in phases in order first to consolidate the necessary basis for subsequent implementation of the measures called for in the strategy agreed with the government for addressing socioeconomic and environmental problems in the region, as well as for preventing or mitigating possible negative impacts. This reflects the difficulty of exerting control in areas where the demand for conservation is just beginning, and where the land tenure situation is unclear. This operation provides an opportunity for making significant progress in both the conservation and the use of natural resources and in improving living standards for residents of the region.
- 4.15 Under the phased approach to execution, the first phase will focus on strengthening the management capacity of institutions and governments at the regional and local levels, and of local civil society organizations, as well as designing decentralized decision-making and management instruments for addressing the region's problems on the basis of sustainable management of natural resources. The net social and environmental impact should therefore be positive. As well, activities relating to regulation, training and technical assistance, as well as indicative land use planning and active community participation, will bring rationality and sustainability to the expansion of agricultural activities, the exploitation of forestry and fishery resources, and the use of natural resources for tourism.
- 4.16 In an effort to enhance living standards and raise incomes, the program will encourage priority investments in human capital and community self-management. It will also introduce instruments for fostering production and securing access to markets for small producers, using environmentally sustainable practices. As well, the activities planned under component 3, which are for the most part small-scale works with few environmental repercussions, will be subjected to environmental procedures that will be incorporated into the Operating Regulations. For larger-scale works with a possible negative impact, the Operating Regulations require Environmental Impact Assessments and Environmental Mitigation Action Plans where these are deemed necessary.
- 4.17 From the social and ethnic-cultural viewpoint, the program stresses participation and consultation as a fundamental element of decision-making in identifying priorities, formulating management plans, preparing annual work plans (AWPs),

and selecting priority activities and projects, and will ensure that solutions are consistent with community needs and circumstances. Civil society will therefore participate in the various committees, through a scheme that will give distinct representation to organizations or representatives of ethnic groups, productive sectors and NGOs active in the province. Special consideration will be given to involving women in decision-making and ensuring that they are important players and beneficiaries in projects and activities. The Operating Regulations will establish criteria to encourage a gender focus in projects. The process of building consensus on the strategy and its action plans, and formulating the program, uses a methodology involving direct field interviews with social players, to avoid the exclusion or discriminatory treatment of any ethnic or social group or community.

- 4.18 The first phase of consultation included five formal workshops, one for each of the three districts and the two indigenous communities of Ngöbe-Buglé and Teribe-Naso. This first phase identified principal social players in the region, the most important grass-roots organizations (advocacy, productive or service groups), the most representative bodies and the different agendas of social players. During the second phase of the community information and consultation process, the scope and design of the program was worked out with the principal players. The local indigenous communities have been given special treatment in the consultation process and, in formulating the program, the activities financed by other donors were reviewed to avoid any duplication of efforts.

G. Program risks

- 4.19 Sustainable development programs are complex undertakings that involve many players in the public and private sectors alike. They also require a high degree of community participation. This calls for a management capacity that for the most part does not exist in the zone, and that the program will have to create or strengthen. One of the greatest risks with programs of this kind is that its requirements may exceed the absorption, response and management capacity of the existing institutionalized participatory framework. This risk can be mitigated through a multiphase program structure. Possible delays in implementing the participatory and decentralized institutional framework for the program's execution (considering the current degree of centralization) will be minimized by the design of the program, which has involved a broad process of consultation and participation with stakeholders and beneficiaries to ensure close links with the community.
- 4.20 Two other risks relate to: (i) a failure to reach agreement, within the agenda, with Bocas Fruit Company (BFC) and Petro-Terminal Panamá (PTP) on the effective transfer of responsibility for basic services. This risk will be reduced through a gradual process of preparing and negotiating an agenda between the government, on one hand, and BFC and PTP for exploring and identifying the best alternatives for that transition, involving other private service providers; and (ii) a failure to achieve financial sustainability in small projects, particularly those involving small-scale producers and local governments. To minimize this risk, the program design

includes mechanisms for involving stakeholders and beneficiaries in decision-making, and for having them understand and accept their financial obligations and responsibilities in each case.

MULTIPHASE PROGRAM FOR SUSTAINABLE DEVELOPMENT OF BOCAS DEL TORO
LOGICAL FRAMEWORK (PHASE I)

Narrative summary	Indicators	Means of verification	Assumptions
<p>Goal: Help lay the basis for sustainable development of the region by supporting activities yielding economic, social and environmental benefits, to produce a sustainable improvement in living conditions.</p> <p>Purpose of the program: Comprehensive, sustainable development of the Bocas del Toro region.</p>	<ul style="list-style-type: none"> ▪ Decentralized management capacity created, with a strategic vision for promoting sustainable development of the region. ▪ Groundwork established for sustainable farming, forestry, fishing and tourism development, designed and agreed on, maximizing the region's comparative advantages and competitiveness. ▪ Strengthened capacity for self-management and sharing responsibilities for addressing problems. 	<ul style="list-style-type: none"> ▪ Application, adoption and extent of application of Indicative Land Use Plan. ▪ Baseline and Comptroller's reports. ▪ Program monitoring and evaluation system. 	<ul style="list-style-type: none"> ▪ Authorities have the political will to make this a State program. ▪ There is local political will to make changes. ▪ The government is willing to decentralize management. ▪ UCEP created. ▪ Management capacity created in the region. ▪ Cadastre and land titling work done by PRONAT/IDB. ▪ The region has management capacity.
<p>Component:</p> <ul style="list-style-type: none"> ▪ Strengthening management capacity <p>Goal: Develop institutional management capacity in the region.</p>			

Narrative summary	Indicators	Means of verification	Assumptions
<p>Purpose: Build management capacity at the local, provincial and national level in the region for ensuring sustainable development.</p> <p>Subcomponents:</p> <p>a. Local level (municipalities, communities, grassroots organizations)</p> <p>b. Regional or provincial</p> <p>c. National level</p> <p>d. Binational level</p>	<p>District and Provincial Committees created and functioning with their own rules of procedure.</p> <ul style="list-style-type: none"> ▪ Municipalities that have implemented administrative and financial improvement plans. ▪ Municipalities that have produced urban development plans and have proposals for implementing them. ▪ Heightened community participation in decision-making. ▪ Regional ministerial offices that have implemented action plans; office of the provincial governor strengthened ▪ An agenda has been agreed for transferring basic services provided by BFC and PTP. ▪ A binational agenda for the border region has been established and launched. 	<ul style="list-style-type: none"> ▪ Decrees creating these bodies, including their rules of procedure, and minutes of their meetings. ▪ Minutes of District and Provincial Board meetings. ▪ Number of grassroots organizations; number of projects undertaken by municipalities; number of projects executed under contract by private associations. ▪ Government decrees. ▪ Number of public and private employees trained and participating in management. ▪ Agenda of Binational Commission coordinated in the province by provincial governor's office. ▪ Level of participation and technical support from Regional Directorates on the Provincial Board for project design and supervision. 	<ul style="list-style-type: none"> ▪ The government continues to be willing to pursue decentralization. ▪ Institutional capacity for maintaining trained staff in the Province. ▪ UCEP functioning. ▪ District and Provincial Committees functioning. ▪ Adequate supervision and monitoring.
<p>Component:</p> <ul style="list-style-type: none"> ▪ Sustainable management of natural resources and productive development <p>Goal: Capitalize on comparative advantages of the region's natural resources in a sustainable manner.</p> <p>Purpose: Promote the region's development and competitiveness in a sustainable way, consistent with its potential.</p>	<ul style="list-style-type: none"> ▪ Four pilot agriculture, forestry and fishing projects adopted and launched. 	<ul style="list-style-type: none"> ▪ Comparison of actual versus anticipated outcomes. 	<ul style="list-style-type: none"> ▪ There is political will in the agencies responsible for natural resource management.

Narrative summary	Indicators	Means of verification	Assumptions
<p>Subcomponents:</p> <ul style="list-style-type: none"> • Natural resource management and disaster prevention and mitigation • Development and diversification of farming and forestry activities • Conservation of subsistence fishery and sustainable tourism 	<ul style="list-style-type: none"> ▪ Cost-recovery mechanisms designed and agreed for each sector. ▪ Mechanisms to pay for environmental services identified, with proposals for implementation. ▪ 10 communities organized to reduce the threat of natural disasters. ▪ 400 plantain producers assisted by the pilot project for modernizing production and marketing, aiming in five years or more to increase productivity by 20% and raise yields from 8 MT to 12 MT, with a 12% drop in production costs. ▪ Producers on 16 farms of between 10 and 50 hectares have benefited directly and 100 farms have benefited from improved cattle feeding. ▪ Two Sustainable Forestry Areas (APS) of 150-200 hectares each covered by the sustainable forestry pilot project, benefiting small producers. ▪ Net family incomes at least US\$100/month higher, benefiting 1,350 producers directly and 3,375 indirectly, through technical assistance to build business management capacity in farmers and small producers. ▪ Higher incomes for 70 fishing cooperative members through the pilot project on new technologies and fish product marketing, to reduce pressure on subsistence fishing stocks. 	<ul style="list-style-type: none"> ▪ Mechanisms identified and feasibility of submitted proposals. ▪ Activities of the local committees ▪ Pilot project evaluation ▪ Pilot project evaluation ▪ Pilot project evaluation ▪ Evaluation of technical assistance results ▪ Pilot project evaluation 	<ul style="list-style-type: none"> ▪ Management capacity created in the region. ▪ Cadastre and land titling begun by PRONAT/IDB. ▪ Monitoring and evaluation systems are functioning. ▪ UCEP is functioning ▪ Indicative land use plan adopted. ▪ Regional offices of AMP, MIDA IPAT and ANAM strengthened. ▪ District and Provincial Committees functioning. ▪ Provincial Government strengthened ▪ Annual investment plan approved.

Narrative summary	Indicators	Means of verification	Assumptions
<p>Component: Basic services and transportation infrastructure</p> <p>Goal: Improve the quality and coverage of public services and basic infrastructure in the region.</p> <p>Purpose: Improve the quality and coverage of basic services and communication and transportation infrastructure in the region.</p> <p>Subcomponents:</p> <ul style="list-style-type: none"> • Transportation • Energy • Water and sewers • Sanitation 	<ul style="list-style-type: none"> ▪ Two sanitation pilot projects adopted and launched. ▪ Preinvestment and infrastructure investment projects prioritized, designed and initiated through the local and regional planning system, consistent with requirements in the Operating Regulations. ▪ Bridge over the Changuinola River begun. ▪ Elimination of remaining percentage of uncollected solid waste on the islands, through the Isla Colón pilot project for solid waste management, collecting 3.27 tons/day ▪ Connection of 312 dwellings and treatment of 250 l/day of sewage in Chiriquí Grande, through the pilot project to create artificial lagoons. 	<ul style="list-style-type: none"> ▪ Comparison against the baseline. ▪ Number of projects. ▪ MOPT supervision reports. ▪ Pilot project evaluation. ▪ Pilot project evaluation. 	<ul style="list-style-type: none"> ▪ Government and local authorities have the political will to encourage different approaches to managing services. ▪ Monitoring and evaluation system functioning. ▪ UCEP functioning. ▪ District and Provincial Committees functioning. ▪ Annual investment plan approved.

MULTIPHASE PROGRAM FOR SUSTAINABLE DEVELOPMENT OF BOCAS DEL TORO
PROCUREMENT OF GOODS AND SERVICES
(US\$000)

Categories	Total amounts ^{1/}	Type of contracting (*)	Amounts Year 1	Amounts Year 2	Amounts Year 3
1. Consulting and other services					
Urban land-use plans	340.0	ICB	120.0	100.0	120.0
Technical assistance (UCEP)	130.0	LCB	50.0	50.0	30.0
Auditing and interim evaluation	130.0	LCB	30.0	50.0	50.0
Strengthening civil society	700.0	ICB	200.0	200.0	300.0
Monitoring and evaluation	100.0	LCB	30.0	40.0	30.0
Institution-strengthening (3 municipalities and provincial government)	700.0	ICB	250.0	250.0	200.0
Forums, workshops with municipalities and communities	100.0	LCB	30.0	40.0	30.0
Subtotal	2,200		710.0	730	760
2. Goods					
Equipment and supplies (UCEP, municipalities, provincial govt.)	150.0	LCB	50.0	100.0	
Vehicles, boats	80.0	LCB	40.0	30.0	10.0
Subtotal	230.0		90.0	130.0	10.0
3. Works projects					
I. Strengthening management capacity	N/A	N/A			
II. Sustainable management of natural resources and productive development					
Production systems	360.0	LCB	100.0	200.0	60.0
Cattle management	140.0	LCB	50.0	50.0	40.0
Fish marketing	155.0	LCB	50.0	55.0	50.0
III. Basic services and infrastructure					
Wastewater Chiriquí	80.0	LCB	50.0	30.0	
Solid waste Colón	115.0	LCB	50.0	65.0	
Changuinola Bridge	5,000.0	ICB	2,000.0	2,000.0	1,000.0
Subtotal	5,850		2,300	2,400	1,150
Total	8,280		3,100	3,260	1,920

The procurement of goods and associated services, construction contracting and the hiring of consulting services will be governed by the Bank's procurement policy. International competitive bidding (ICB) will be required for the purchase of goods and associated services costing over US\$350,000 and for works contracts above US\$1.5 million. International calls for proposals will be used to engage consulting services costing more than US\$200,000.

Procurement and contracting for amounts below these thresholds will be conducted in accordance with a simplified procedure to be described in Annex D to the loan contract. That special procedure will require local competitive bidding (LCB) for goods and associated services between US\$100,000 and US\$350,000; works contracts between US\$500,000 and US\$1.5 million; and consulting services between US\$100,000 and US\$200,000. Limited local bidding will be used for goods and related services costing between US\$10,000 and US\$100,000; works projects between US\$10,000 and US\$500,000, and consulting services between US\$5,000 and US\$100,000. Price shopping will be used for goods and associated services costing less than US\$10,000, works projects under US\$10,000, and consulting contracts under US\$5,000.