

## Initial Project Information Document (PID)

Report No: 34914

<b>Project Name</b>	PANAMA-SECOND RURAL POVERTY AND NATURAL RESOURCES
<b>Region</b>	Latin America and Caribbean Region
<b>Sector</b>	General agriculture, fishing and forestry sector (35%); Sub-national government administration (35%); General water, sanitation and flood protection sector (30%)
<b>Theme</b>	Other rural development (P); Other environment and natural resources management (P); Decentralization (P); Indigenous peoples (S)
<b>Project</b>	P064918
<b>Supplemental Project</b>	P083045
<b>Borrower(s)</b>	REPUBLIC OF PANAMA
<b>Implementing Agency(ies)</b>	MINISTRIES OF AGR., ECONOMY AND FINANCE, NAT. ENV. AUTHORITY Ministry of Economy and Finance Address: Vía España, Edificio Ogawa, Tercer piso Apartado Postal 7304, Zona 5, Panamá, Republic of Panamá Contact Person: Minister Norberto R. Delgado Tel: 507 227 3650 Fax: 507 227 6148 Email: ndelgado@mhyt.gob.pa  Ministry of Agriculture Address: Apartado 5390, Zona 5, Panamá, Republic of Panamá Contact Person: Minister Lynette Stanziola Tel: 507 232 5648 Fax: 507 232 5044 Email: ministro1@psi.net.pa  National Environmental Authority Address: Apartado C-0843 BAAlboa, Ancon, Panamá, Republic of Panamá Contact Person: General Administrator Ricardo R. Anguizola Tel: 507 315 0527 Fax: 507 315 0663 Email: ranguizola@anam.gob.pa
<b>Environment Category</b>	B (Partial Assessment)
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### 1. Country and Sector Background

Panama is one of the more prosperous countries in the region, with a per capita GNP of US\$2,377 (current dollars for 2000). Despite its relatively better standing at the macro level compared to other countries in Latin America, disparities remain great. The country has one of the highest inequality coefficients in Latin America, on par with Brazil and just below South Africa, two of the most unequal countries in the world. Estimated Gini coefficients are 0.52 in urban areas and 0.56 in rural areas. Income per capita is US\$3,224 in urban areas, but only US\$968 in rural areas. Poverty, especially in rural areas, is pervasive. Some 37 percent of all Panamanian families were poor and 22 percent were extremely poor as of 1997, according to the joint GOP-Bank Poverty Assessment (2000). Less than one-third (31 percent) of the rural population is classified as "non-poor," according to household surveys and census data, compared to three-quarters (75 percent) in the urban areas. Indigenous peoples are the poorest of the poor in Panama. Their communities rank consistently lower in every scale of human well-being.

Persistence of rural poverty is currently associated with lack of access to income generation opportunities and basic infrastructure services, weak local governments, and mismanagement of natural resources. Accordingly, both the Panama CAS (1998) and Poverty Assessment (2000) have identified rural income generation, basic infrastructure services, local government development, and natural resource management as key elements in Panama's current poverty reduction strategy.

**Main sector issues** (See annex 4 for more details)

*Productive Activities and Basic Infrastructure Service in Rural Areas.* Many poor people in rural areas engage in small farming, an activity that is associated with low productivity and production, high transaction costs for the meager share of production that is marketable, difficulties in accessing support services, poorly maintained infrastructure, and lack of access to market information, markets, and marketing services. In Panama direct assistance to small farmers is usually left to temporary regional and rural development programs, normally financed by external financial institutions. Actions on supply factors---such as technical assistance, infrastructure, and provision of subsidized inputs to enhance productivity and output---may have an important impact on poverty only if producers have effective access to markets. Assistance to the rural poor needs to include support for non-agricultural activities---notably construction, commerce, and tourism---as an important fraction of the rural poor already depend on these activities for their livelihood. Throughout Panama, the rural population has difficulty in accessing basic infrastructure services, such as water and power. Inequities to such services abound, especially among dispersed rural populations and in indigenous areas. Access to basic services is highly correlated with a lower probability of being poor, the LSMS has shown.

*Local Government Development.* Municipalities in Panama lag far behind their counterparts in Latin America with respect to local governance and financial autonomy. *Representantes de Corregimiento* (community presidents) have more political clout than mayors and even provincial governors. In fact, the municipal treasurer and other key officials in the administration are appointed and supervised directly by the council, not by the mayor. Council members are the *corregimiento* representatives and they receive their own individual investment allowances from the central government to spend on their communities. As such, the weakness of municipalities is often translated in their inability to perform a wide array of functions assigned to them by the basic law on municipalities, Law 106, including the supply of many local services such as public health and hygiene, public parks and squares, playgrounds, gardens, police justice, licenses and permits, low-voltage power distribution networks and grid expansion, slaughterhouses, and cemeteries. In addition, local governments execute less than 2 percent of total public sector expenditures and have limited capacity to generate their own resources. Municipalities in poor areas cannot meet their modest operating costs and depend on central government discretionary transfers to meet their payrolls. These municipalities have limited capacity for planning, budgeting, and maintaining infrastructure. Furthermore, they lack the instruments to coordinate community participation in the identification, planning, execution, and supervision of local activities at the community or district level. Community participation usually constitutes a direct link between central agencies or centrally executed projects. The municipal government and even the local organizations in the government structure are effectively left aside because of their inherent weakness.

*Natural Resource Management.* Panama is rich in biodiversity. The Mesoamerican Biological Corridor (MBC) in Panama runs from the Colombian border at the Darien National Park to the Costa Rican border at the Parque Nacional La Amistad. This natural wealth contrasts sharply with the current trends in degradation of natural resources (forests, soils, and water) in many poor areas. Soil and water resources in many poor areas have been depleted because of inadequate agricultural practices and lack of conservation measures. Many poor farmers have emigrated to Darien and Bocas del Toro provinces,

located at each end of the MBC, where resources are still abundant but fragile. There, they replicate the unsustainable production patterns they left behind. Forests are being lost at an estimated rate of 50,000 hectares per year. Overall, between 1940 and 2000, the country's forest cover dropped from 70 percent to 40 percent. In the 1990s, agricultural land use declined from 2.9 to 2.7 million hectares, but approximately 297,000 hectares of forested farmland were lost because local lumber production increased. These trends in natural resources exploitation are in part a result of poor environmental management. Watershed degradation from deforestation and unsustainable use of lands has accelerated soil erosion, sedimentation, and pollution of fresh water sources. Intimately related to poverty and increased migration are the issues of poaching and encroachment of protected areas. Farming and illegal logging in protected areas are common.

### **Government Strategy**

*Productive Activities and Basic Infrastructure Services in Rural Areas.* The GOP has defined the need to increase productive investments as one of its strategic pillars for its intervention in the agricultural sector, as defined in the *Plan Panama Rural 2001-2004*. The GOP envisions a more productive rural sector through steps to strengthen the development of new economic productive investments---both on farm (including new plantations, irrigation, and land conservation) and off farm (such as irrigation systems, silos and post production facilities). The Government also has targeted the development of production support services. The Government proposes to finance investments in productive and basic infrastructure services by making resources available to communities directly through demand-driven funds. This mechanism enables the rural poor to prioritize investments and strengthens their ability to participate in community and municipal development planning. GOP plans to pilot a non-discretionary fiscal transfer system to municipalities that would provide resources for municipal and community investments.

*Local Government Development.* The GOP has stated that rural municipal development is one of the country's top priorities. In 1999, the current government formalized that commitment by signing the Decentralization and Local Development Agreement. The Government has also agreed to a ten-year (2004–2013) National Local Governance Strengthening Program, which would extend nationally the community demand-driven approach to rural development, based on the successful pilot of the Panama Rural Poverty and Natural Resources Project (see annex 5) and the proposed project's rural municipal development model. The proposed project would support the GOP efforts to implement Law 106 by working within the current structure, which allows municipalities to collect revenues, receive transfers, and supply local services. Legal reforms would be prepared to deal with shortcomings in the structure of local governments.

*Natural Resource Management.* Since its establishment in 1998, ANAM, the National Environmental Authority, has focused on the implementation of Law 41, Panama's General Environment Law (GEL). The law provides for a decentralized framework for environment and natural resources management. Regulations on protected areas, water resources, forestry, and other aspects under ANAM's jurisdiction are still being formulated. The general regulatory strategy includes such important features as applying a pilot decentralization program; establishing environmental commissions in certain municipalities, provinces and *comarcas* (indigenous peoples geopolitical territories); setting up co-management arrangements in areas overlapping national parks and indigenous *comarcas*, and mainstreaming biodiversity conservation.

## 2. Objectives

The project aims to reduce rural poverty and improve natural resource conservation and management by increasing investment for sustainable development and improving local governance in poor rural areas. It would contribute to three priorities for the country's social and economic development: rural poverty reduction; local government strengthening; and natural resource management, biodiversity conservation, and environmental protection. In particular, it would have a positive impact on employment and income generation, as well as social capital formation for local development. It would improve delivery of municipal services and the provision of social and economic infrastructure, and would strengthen local revenue mobilization (through local taxes and user fees) and the fiscal transfer system. It would also support sustainable management of natural resources in strategic areas such as the Panama Mesoamerican Biological Corridor (PAMBC); and would improve the operation of Panama's National Protected Area System.

The project would increase the coverage and depth of two ongoing projects, the Panama Rural Poverty and Natural Resources (RPNR) Project and Panama Mesoamerican Biological Corridor (PAMBC) Project. The proposed Second Rural Poverty Project would be a fully blended IBRD and Global Environment Facility (GEF) operation.

## 3. Rationale for Bank's Involvement

The Bank has broad international experience with legal, institutional, and technical frameworks for municipal strengthening, demand-driven investments, participatory approaches, and indigenous peoples policies and frameworks. These approaches have led to efficient program administration and positive outcomes by reducing bureaucracy and reinforcing accountability. Experience gained from RPNR and PAMBC has given the Bank specific knowledge of the Panamanian rural development situation and a good understanding of institutional and technical constraints. Bank support for the proposed project would promote the institutional sustainability of a long-term, community demand-driven approach to poverty reduction. Bank support would enhance project continuity with the new administration that will take office in September 2004. The Bank also plays an important role as an effective mediator among the project's different public execution agencies.

## 4. Description

Institutional strengthening at the national level to support local government system and NRM  
 Capacity building of local actors  
 Funding for local investment and resource management financing  
 Project management and coordination

## 5. Financing

### Source (Total ( US\$m))

BORROWER/RECIPIENT (\$12.50)

IBRD (\$37.50)

GLOBAL ENVIRONMENT FACILITY (\$6.00)

**Total Project Cost: \$56.00**

## 6. Implementation

**Implementation period.** Five years. The proposed project would support the first phase (2004–2008) of two phases of the ten-year National Local Governance Strengthening Program (2004–2013).

As much as possible, existing structures would be used. A Project Board would be established, as none exist, with representatives from the participating institutions, civil society, and beneficiaries to provide

overall project oversight and strategic decision making. A small independent Project Coordinating Unit (PCU) would be created to coordinate project activities to be implemented by MEF, MIDA, and ANAM. Project Execution Units---based on the existing MIDA and ANAM RPNR and PAMBC executing units, and the MEF executing unit to be created---would be responsible for execution of project activities. Other line ministries would provide technical assistance to municipalities and communities in investment planning and execution. Provincial Technical Committees would coordinate public sector intervention, matching the supply of assistance from line ministries with local demands, at the regional level. Municipal councils, composed of *corregimiento* or community board presidents, would prioritize and aggregate community action plans and municipal level investments into Municipal Development Plans. Community boards would facilitate the participatory production of the community diagnostics, Community Action Plans (CAPs), and subprojects. NGOs would support capacity building of local actors in participatory planning, community organization, and subproject execution. Annex 8 contains additional information about institutional arrangements.

### **7. Sustainability**

The proposed project is directed to build upon the RPNR and PAMBC projects and expand upon them through the involvement of the local government system. The strengthening of municipalities through the implementation of a municipal administration model would ensure that the rural poor have an institution responsive to their interests, and that the social capital created during the project is built upon. Institutional sustainability of the proposed project is based on the maintenance of this social capital under local government auspices, and its reproduction in other communities. Sustainability is also sought through GOP fiscal transfers to municipalities on an equity-based formula and through local income generation, including decentralization of local tax collection.

### **8. Lessons learned from past operations in the country/sector**

The following lessons---eleven, in particular---were learned primarily during the implementation of the RPNR and PAMBC projects and are being incorporate into the project design of the proposed project (see annex 9 for more information). i) The demand-led approach implies a need to attend to basic social infrastructure investments first. These investments are a means to develop a base of social and human capital that is necessary *before* communities have interest in and capacity to implement productive subprojects. ii) Greater linkage between demand and supply needs to be considered. The focus of RPNR was more on production, and support for commercialization and marketing was lacking. iii) Social and human capital formation is critical for poverty reduction. However, the cost for this capital formation has been high and cost-saving measures need to be explored. iv) Inter-institutional coordination between line ministries and municipalities and communities is critical for project implementation and needs to be strengthened. v) Subproject design, execution, and maintenance needs stronger supervision and additional training, particularly for water supply and road subprojects. vi) Municipal involvement is critical for the sustainability of participatory planning, subproject financing, and execution. vii) Gender focus is important and should continue to be promoted. (In RPNR, 40 percent of those trained were women and 35 percent of SDC members were women). viii) Sectoral agencies conflict resolution policies and mechanisms are key for resolving illegal occupation of *comarca* lands. ix) Financing mechanisms for protected areas are critical for sustainability. x) Implementation of co-management arrangements for local environmental management are needed for effective natural resource management. xi) Systematic technical support for biodiversity subproject design and implementation is needed to assure effective implementation and long-term sustainability of subproject investments.

## **9. Environment Aspects (including any public consultation)**

**Issues** : An environmental assessment (EA) to be carried out in the project area during preparation would identify the critical environmental issues. The EA would assess eventual negative environmental impacts that could result from project implementation, propose an Action Plan that lays out project procedures to avoid and/or mitigate adverse environmental impacts within the project area, and define criteria and mandatory procedures for environmental review that would be implemented prior to or during subproject execution. It would also establish institutional and administrative arrangements for overseeing implementation and enforcement and establish a budget and timeline for completing the required actions. Given the experiences of the ongoing projects, the environmental assessment would especially consider monitoring of the direct environmental impacts of community-executed works, as well as soil, forest, and water resource degradation.

Based on preliminary information, the environmental effects of the project are expected to be highly positive in the long term because they would provide the framework, policies, and mechanisms for achieving environment and natural resources management through strengthening of local governments. Additionally, the proposed project would promote sustainable natural resource management through the proposed consolidation of existing protected areas.

As part of the proposed project activities concerning protected areas, high ecological value sites would be identified within the project area. It is expected that some of the sites currently protected under the Protected Areas Management System no longer justify that protection, given habitat modifications that have occurred since protected status was granted. Likewise, the proposed project may determine that areas not subject to the Protected Areas Management System support high ecological value. As such, the proposed project would work with local residents and specialists to develop management plans, allowing only conditional use contracts so as to sustainably protect those resources.

The project design emphasizes consultation with stakeholders throughout project implementation, including during the EA. The content of the EMP would be derived from come from the discussions and issues raised during the in-country consultations.

## **10. List of factual technical documents:**

### **11. Contact Point:**

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**Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.**