

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

**SUPPORT FOR THE CONSERVATION AND MANAGEMENT OF CULTURAL
AND NATURAL HERITAGE**

(PN-L1146)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Project Execution Plan / Annual Work Plan: INAC / Ministry of the Environment
2.	Monitoring and Evaluation Plan
3.	Environmental and Social Management Report
4.	Procurement plan: INAC / Ministry of the Environment
OPTIONAL	
1.	Project economic analysis
2.	Environmental and social management plan
3.	Selected projects: San Lorenzo and Portobelo fortifications
4.	Recovery and preservation project: Reina Torrez de Araúz Museum of Anthropology
5.	Management and activities proposal for Reina Torres de Araúz Museum of Anthropology
6.	Proposed projects: Portobelo National Park, San Lorenzo Protection Forest and Reserve
7.	Coiba National Park: Conceptual design package
8.	Public use plan for Volcán Barú National Park
9.	Project sheets for protected areas
10.	Institutional analysis and proposed execution arrangements
11.	Bibliographic links
12.	INAC planning instruments
13.	Ministry of the Environment planning instruments
14.	Safeguard Policy Filter and Safeguard Screening Form

ABBREVIATIONS

AWP	Annual work plan
BPPPSL	Bosque Protector y Paisaje Protegido San Lorenzo [San Lorenzo Protection Forest and Reserve]
ESA	Environmental and social analysis
ESMP	Environmental and social management plan
ESMR	Environmental and social management report
INAC	Instituto Nacional de Cultura [National Culture Institute]
IRR	Internal rate of return
LIBOR	London Interbank Offered Rate
MARTA	Museo Antropológico Reina Torres de Araúz [Reina Torres de Araúz Museum of Anthropology]
PMEMAP	Programa de Monitoreo de la Efectividad del Manejo del SINAP [SINAP Management Effectiveness Monitoring Program]
PNP	Parque Nacional Portobelo [Portobelo National Park]
PNVB	Parque Nacional Volcán Barú [Volcán Barú National Park]
SINAP	Sistema Nacional de Áreas Protegidas [National Protected Areas System]
TNP	Teatro Nacional de Panamá [National Theater of Panama]
UNESCO	United Nations Educational, Scientific, and Cultural Organization
WTP	Willingness to pay

PROJECT SUMMARY
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Financial terms and conditions				
A. First loan ^(a)			Flexible Financing Facility ^(b)	
Borrower: Republic of Panama			Amortization period:	25 years
Executing agency: National Culture Institute (INAC) for Components I(a) and II				
IDB (Ordinary Capital):	US\$45,000,000	97.4%	Disbursement period:	5 years
Local contribution:	US\$1,200,000	2.6%		
Total:	46,200,000	100%	Grace period:	5.5 years ^(c)
B. Second loan ^(a)			Interest rate:	LIBOR-based
Borrower: Republic of Panama			Credit fee:	(d)
Executing agency: Ministry of the Environment for Components I(b) and III			Inspection and supervision fee:	(d)
IDB (Ordinary Capital):	US\$62,000,000	92.5%	Weighted average life:	15.25 years
Local contribution:	US\$5,000,000	7.5%		
Total:	US\$67,000,000	100%	Approval currency: U.S. dollars	
Program total:	US\$113,200,000	100%		
Project at a Glance				
Project objective. The objective of the operation is to help preserve and develop Panama’s cultural and natural heritage sites. The specific objectives are to: (i) increase public access to cultural assets by managing them more effectively and rehabilitating two cultural heritage sites; (ii) preserve four protected natural areas by managing them more effectively and making them more financially sustainable; and (iii) increase business startups related to Panama’s cultural and natural heritage.				
First loan				
Special contractual conditions precedent to the first disbursement of the loan: (i) creation of the execution unit (paragraph 3.2) and selection of the general coordinator and the administrative/financial and procurement specialists in accordance with the terms previously agreed upon with the Bank (paragraph 3.4); and (ii) approval and entry into force of the program Operating Regulations (for INAC) previously agreed upon with the Bank (paragraph 3.8).				
Special contractual conditions for execution: See the special contractual conditions for execution in the Environmental and Social Management Report (ESMR).				
Second loan				
Special contractual conditions precedent to the first disbursement of the loan: (i) creation of the execution unit (paragraph 3.2) and selection of the general coordinator and the planning and monitoring, procurement, financial, environmental, and social specialists in accordance with the terms previously agreed upon with the Bank (paragraph 3.6); and (ii) approval and entry into force of the program Operating Regulations (for the Ministry of the Environment) previously agreed upon with the Bank (paragraph 3.8).				
Special contractual condition for execution: See special contractual conditions for execution in the ESMR .				
Exceptions to Bank policies: None.				

Strategic alignment					
Challenges: ^(e)	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(f)	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

- (a) This program will be financed by two loans, each to be signed between the Bank and the Republic of Panama, for up to US\$45 million and US\$62 million, respectively, in accordance with the proposed resolutions attached to this loan proposal. This financing structure will ensure the actions to preserve Panama's cultural and natural heritage are coordinated in a comprehensive manner, while recognizing the autonomy of its lead entities.
- (b) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. When considering such requests, the Bank will take operational and risk management considerations into account.
- (c) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided the original weighted average life of the loan or the last payment date as documented in the loan contract are not exceeded.
- (d) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.
- (e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (f) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Background.** The Panamanian economy grew at an average annual rate of 7.2% between 2010 and 2016 [1].¹ This growth has contributed to an increase in public investment, which accounted for 12.8% of GDP in the same period. This investment, however, has been concentrated in sectors such as infrastructure at the expense of others, including culture and the environment, which has had a negative impact on the preservation of Panama's heritage.
- 1.2 Public investment in the culture sector (0.20% of total) is among the lowest in the region² [2] even though this sector has shown great economic potential in countries such as Mexico and Peru, where it accounts for nearly 11% and 4.5% of all jobs, respectively [3]. The sector's lead agency, the National Culture Institute (INAC), did receive a budget increase but was allocated only US\$193 million of the requested US\$530 million between 2010 and 2016. These financial constraints are compounded by INAC's management deficiencies.
- 1.3 Although 38% of Panama's territory has been declared natural protected areas³ under the protection of the Ministry of the Environment, the role of these areas in providing environmental services and their contribution to Panama's economy have not been fully acknowledged. An economic assessment of environmental services⁴ from 25 protected areas showed that these areas generate more than US\$225 million in goods and services per year, which is 12 times the amount required for managing protected areas in Panama.⁵ Nevertheless, public investment allocated in 2016 for managing protected areas was US\$3.5 million, or 0.006% of GDP—well below the worldwide average (0.040%) [4].
- 1.4 One vital consideration is that a substantial portion of Panama's cultural and natural heritage sites overlap one another, thus requiring coordinated interventions. Examples of this are the Portobelo and San Lorenzo fortifications, which are on the World Heritage List of the United Nations Educational, Scientific, and Cultural Organization (UNESCO) and are located within the Portobelo and San Lorenzo protected areas. Coordination between INAC and the Ministry of the Environment, however, has thus far been inconsistent.
- 1.5 **Challenges related to cultural heritage.** Panama's cultural heritage is managed by INAC based on Law 14 of 1982, which governs the custody, conservation, and management of cultural heritage sites. Panama's main cultural assets, however, are in a precarious state due to a lack of resources and the sector's institutional weakness.

¹ The numbers in brackets refer to the bibliographic references in [optional electronic link 11](#).

² Public investment in the culture sector as a percentage of public expenditure in Mexico and Peru is 0.42% and 0.43%, respectively.

³ The National Protected Areas System (SINAP) includes 119 protected areas covering 6 million hectares of land and water.

⁴ These are services that biodiversity and ecosystems provide to society, including water and air purification and climate regulation.

⁵ This includes activities for the preservation of protected areas, including research and monitoring, community development, and environmental education.

- 1.6 **Deterioration of heritage assets.** Six of the 18 public museums run by INAC are not in operation, including the Reina Torres de Araúz Museum of Anthropology (MARTA). The National Theater of Panama (TNP), one of three public theaters and the leading performing arts venue in Panama, has been closed since 2015. The sector's weakness has also had a negative impact on prominent heritage sites, such as the Portobelo and San Lorenzo fortifications. Current challenges related to cultural assets prioritized⁶ by INAC are described below:
- a. **TNP.** The TNP has hosted major cultural events ever since it opened in 1908. Citing safety hazards, INAC announced in 2015 that the TNP was being closed as a precautionary measure, and it has begun a comprehensive rehabilitation project that includes structural reinforcement, upgrades in theater technology, and restoration of functional and decorative features.⁷ Moreover, the TNP lacks a functioning management body⁸ and regulatory, planning, administrative, and financial instruments—as well as instruments for promoting a performing arts culture—in order to ensure sustainable management.
 - b. **MARTA.** Founded in 1976, MARTA houses Panama's most significant collection of archeological and anthropological assets (16,000 ethnographic and pre-Columbian pieces). The museum was closed in 2010 [5]. Its problems stem from the deterioration of its building, whose architectural features have suffered wear and tear. MARTA has no collection exhibit halls or storage areas, dining service, or restrooms. It has no museological proposal, programming, or documentation for its collection, nor does it have a functioning management body⁹ with technical personnel and operational and financial instruments.
 - c. **Portobelo and San Lorenzo fortifications.** Built in the seventeenth and eighteenth centuries and located in the Portobelo and San Lorenzo protected areas, these fortifications were added to the World Heritage List in 1980. UNESCO has now added them to the List of World Heritage in Danger because their physical and structural deterioration poses a high risk of irreparable loss, and they need to be conserved.¹⁰ An emergency plan has been prepared but not implemented due to a lack of funding. UNESCO recommends that technical studies and preventive work be carried out to protect the integrity of these monuments [6]. The fortifications lack infrastructure for tourists (e.g. visitors' center, restrooms, parking), the board needs strengthening,¹¹ and they need a management plan to ensure sustainable management.
- 1.7 **Institutional weakness.** A key factor in the deterioration of heritage assets is INAC's weakness in terms of its technical teams' capacity and a lack of planning and

⁶ The following criteria were used to prioritize cultural assets: (i) declared a World Heritage Site; (ii) deemed a signature element of Panama's cultural identity; and (iii) in such a deteriorated state that they are classified as nonoperational or at risk of being lost.

⁷ The Ministry of Culture began works for the comprehensive renovation and technical conditioning of the TNP in June 2017. The works will be completed in December 2018.

⁸ The law creating the TNP board was passed on 4 January 2017. This board is not yet in operation.

⁹ The law creating the MARTA board was passed on 4 January 2017. This board is not yet in operation.

¹⁰ UNESCO is requesting (i) corrective measures to achieve the desired state of conservation; and (ii) legal, institutional, and financial measures to implement the corrective measures.

¹¹ The board has no technical personnel to manage social matters and economic development, nor does it have plans for financial sustainability and community development.

management instruments. Only 128 of its 1,075 staff members hold technical, operational, and/or managerial positions, and none of them have received training for their work. The distribution of support personnel does not reflect the institution's needs, creating deficiencies in key areas such as procurement and financial management. INAC also lacks technological tools to link internal or central office systems to those of deconcentrated units.

- 1.8 **Financial sustainability.** INAC has no programs to generate financial resources for maintaining heritage assets. The lack of financing sources has been a key factor in the deterioration of assets. Cultural heritage, however, has untapped economic potential. For example, San Lorenzo received an estimated 22,401 visitors in 2015 while collecting no fees. Improved infrastructure for visitors and fee collection mechanisms are priorities for making this and other sites sustainable.
- 1.9 **Cultural creative industries.** Despite their potential contribution to their own financing and to the promotion of culture, creative industries [7] related to cultural assets are in their infancy. A study found that these industries accounted for 3% of Panama's GDP in 2011, compared to a range of 6% to 10% in Argentina, Peru, and Brazil [8]. This is related to INAC's lack of instruments¹² for identifying the impact of various subsectors of these industries on the economy, as well as for promoting a competitive ecosystem for their development. There are also no financial and other incentives¹³ to generate processes for incubating and accelerating this type of business startup, or technical personnel to lead discussions with strategic stakeholders.
- 1.10 **Challenges related to natural heritage.** Environmental management in Panama was elevated to the ministerial level by Law 8 of 2015. The Ministry of the Environment is the lead entity for environmental protection, conservation, and preservation, as well as for the sustainable use of natural resources.
- 1.11 **Operational management.** The SINAP Management Effectiveness Monitoring Program (PMEMAP)¹⁴ conducted an evaluation that found the management of nine evaluated protected areas in 2016 to be "largely unacceptable." Only 36 of the 119 protected areas in the National Protected Areas System (SINAP) have management plans, and the vast majority of them lack infrastructure for administration and oversight. To address these deficiencies, the Ministry of the Environment has implemented a project titled "Mainstreaming Biodiversity Conservation through Low-impact Ecotourism in the Sistema Nacional de Áreas Protegidas,"¹⁵ which led to development of the financial strategy and instruments

¹² This is reflected in the lack of data in national accounts for this sector, which other countries obtain through their satellite accounts for cultural affairs.

¹³ The incipient state of fiscal stimuli for patronage and the lack of funds for entrepreneurs are hindrances to the use of private resources for cultural and creative goods and services.

¹⁴ The PMEMAP consists of 33 indicators on sociocultural, administrative, political, legal, economic, and financial matters, as well as on natural resources.

¹⁵ This operation (ATN/FM-12798-PN), financed by the Global Environment Facility and administered by the Bank, aims to generate a model of low-environmental-impact ecotourism in the SINAP that contributes to biodiversity conservation and sustainability of protected areas.

such as management plans and public use plans¹⁶ for priority protected areas. These instruments have not been implemented yet.

- 1.12 **Financial sustainability.** Financial management of protected areas relies on self-generated resources,¹⁷ which have proven insufficient. Revenues from collection of entrance fees and other activities in protected areas accounted for just 15% of the SINAP budget in 2010 [9]. With US\$6.1 million in available funds for 2013, the budget has an estimated financial gap¹⁸ of US\$12.58 million. Recent progress, such as the project for online fee collection and the signing of orders to strengthen revenue-sharing or the concessions system (for economic involvement of local communities),¹⁹ constitutes a step in the right direction, but the lack of local entrepreneurial capacities remains a significant challenge.
- 1.13 **Green tourism.** One of the main focuses of the Ministry of the Environment in pursuing financial sustainability of protected areas²⁰ is green tourism,²¹ which aims to preserve natural heritage by: (i) generating financial resources; (ii) improving the visitor experience under safe conditions for the site;²² and (iii) generating economic benefits for local populations in order to encourage co-management. Despite the recent upward trend,²³ and given the numbers of visitors projected in the public use plans, the number of visitors to protected areas remains small. For example, only an estimated 3% of international visitors to Panama visited a protected area in 2014 [10], which is low compared to 36% in Costa Rica.²⁴ The main reasons for this include a lack of tourism promotion,²⁵ infrastructure, and ecotourism services [11].
- 1.14 **Support infrastructure.** Another factor hindering the sustainable management of protected areas is the deterioration or absence of support infrastructure for visitors and surveillance personnel. In 2013, for example, the PMEMAP found that only 5 of 36 protected areas evaluated had signage, and most checkpoints were either out of service or in a deteriorated state [12]. Such is the case with Coiba National Park, where surveillance is ineffective with only one checkpoint in operation. The most prominent protected areas (Volcán Barú and San Lorenzo National Parks) lack

¹⁶ The public use plan sets forth the model and parameters for public use of protected areas, in accordance with the management plan.

¹⁷ Budgetary transfers (US\$3.1 million in 2016) support administrative management of the SINAP.

¹⁸ The financial gap is the difference between available funds and financial needs for conservation and sustainable management of the protected areas.

¹⁹ Shared management (Executive Decree 59 of 2016); concessions (Executive Decrees 33 and 34 of 2017).

²⁰ Through the [Action Plan for Development of Green Tourism in Protected Areas 2016-2026](#).

²¹ Green tourism is environmentally responsible tourism that involves traveling to or visiting natural areas to enjoy, appreciate, and study their natural attractions, as well as any cultural manifestations at the site, in a process that promotes conservation, has a low environmental and cultural impact on the site, and fosters active local involvement (International Union for Conservation of Nature, 1996).

²² Within the parameters determined by effective load capacity, the maximum allowable number of visitors is determined in light of the site's management capacity.

²³ Tourism in Panama has grown at a steady pace (9% per year on average) in the past decade. In 2015 alone, the number of visitors to protected areas rose by an estimated 42%.

²⁴ Statistics from Costa Rica's National Conservation Areas System (SINAC).

²⁵ The Tourism Promotion Fund was recently approved to implement Panama's Master Plan for Sustainable Tourism (2007-2020). This fund receives an annual contribution of US\$20 million per year, and its technical committee includes members of the Panama Bureau of Tourism, the Ministry of the Environment, and INAC.

infrastructure and services for the enjoyment and environmental awareness of visitors, with no information centers, lodging facilities, or dining options [13].

1.15 **Priority protected areas.** To address these challenges, the Ministry of the Environment has developed action plans for four priority protected areas.²⁶ These plans include actions identified in the corresponding management and public use plans, which have been validated by local stakeholders²⁷ and are now awaiting implementation.

- a. **Coiba National Park (PNC) (254,822 hectares).** Located on the Gulf of Chiriquí, this park was included in UNESCO's World Heritage List in 2005 and is among the areas that receive the most visitors (15,000 in 2016) [14]. The increase in visitors has exposed a lack of tourism infrastructure and a deficient surveillance system for ensuring ecosystem conservation. In addition to upgrading administrative facilities, installing checkpoints, and providing tourism services, the public use plan has identified preservation of the jailhouse, now in ruins, as a priority.
- b. **Volcán Barú National Park (PNVB) (35,838 hectares).** Located in the province of Chiriquí, the volcano's peak (at 3,457 meters above sea level) is the highest point in Panama. Even without adequate infrastructure, the park receives some 9,200 visitors per year [15]. The park is surrounded by residents (3,365 dwellings in the area of influence) who use and enjoy the resources originating in the protected area. The public use plan prioritizes land-use planning with infrastructure for tourism activities, such as visitors' centers, rehabilitation of pathways, and installation of checkpoints. It also includes landscape restoration and implementation of management models for local community involvement.
- c. **Portobelo National Park (PNP) and San Lorenzo Protection Forest and Reserve (BPPPSL) (22,909 hectares).** Located in the province of Colón, these protected areas feature significant natural attractions in addition to the San Lorenzo and Portobelo fortifications, making this complex one of Panama's most valuable cultural and natural heritage sites. The BPPPSL received an estimated 20,000 visits in 2016 [16]. The public use plan identifies actions to manage visitors—including access controls, visitation sites, and administrative offices—which complement the actions for protecting the fortifications. It also prioritizes the participation and training of local communities to manage the site and provide tourism products and services, as a way of boosting local development.²⁸ Moreover, the management plan observes that Portobelo also lacks equipment as well as urban and mobility services to help the public enjoy and make full use of its heritage.

²⁶ Protected areas were prioritized in accordance with the following criteria: (i) declared by UNESCO as a World Heritage Site; (ii) particularly noteworthy for the contribution of strategic ecosystem services to the country; and (iii) having the greatest increase in the number of visitors.

²⁷ These include communities with ties to the protected area, grassroots communities, tourism operators and guides, and nongovernmental organizations.

²⁸ Portobelo (population 4,317) has some 36 community organizations, including health committees, local councils, and sports clubs. The strongest cultural traditions in Portobelo are the Congo festivals and the religious festivities in honor of the Cristo Negro (Black Christ).

- 1.16 **Rationale.** Cultural and natural heritage is a source of enrichment for humanity and contributes significantly to inclusive and sustainable development. This program uses heritage preservation as a catalyst for productive processes that will contribute to socioeconomic, cultural, and environmental development in Panama. It aims to promote new methods for the management, use, and consumption of cultural and natural heritage, on an integrated basis and with the aim of protecting this valuable heritage for the enjoyment and benefit of society.
- 1.17 The program also supports the fulfillment of Panama's international commitments. Actions to preserve the fortifications and manage them more effectively will help mitigate the risk of their deterioration and ensure that they remain on the World Heritage List. In addition, support for rehabilitating and managing MARTA and the TNP is now a priority since Panama City was named the Ibero-American Capital of Culture for 2019. Conservation and sustainable management of protected areas is also considered a critical pending task in view of the value of these areas, their recognition as world heritage sites, and their role as part of the biosphere reserve. Lastly, the program's actions will contribute to Panama's commitment to the 2020 Aichi Biodiversity Targets.²⁹
- 1.18 **Program strategy.** The program takes a comprehensive approach toward heritage preservation, supporting coordinated actions to sustainably protect Panama's cultural assets and natural protected sites. Its main activities focus on rehabilitation and protection of prominent assets that are at risk or in a critical state, as well as on developing these assets, through arrangements for use and management that will help finance and promote them. The strategy relies on the involvement of private initiative and local communities in managing and protecting natural and cultural assets and promoting cultural industries.
- 1.19 At the heart of this strategy is the strategic role of the sector's lead entities (INAC and the Ministry of the Environment), whose work should be integrated and coordinated. Strengthening these entities and helping them coordinate with one another—to create synergies that will facilitate their relationship with other public and private stakeholders to meet their objectives³⁰—is crucial to the operation's success (see paragraph 2.2).
- 1.20 **The Bank's experience and sector knowledge.** The operation benefits from lessons learned in Bank programs on protecting and developing cultural heritage and preserving natural and environmental assets. The former type of operation includes the Heritage Preservation Program (loan 1952/OC-CH) and the Cultural Heritage Protection and Restoration Program (loan 2678/OC-EC). The latter type includes the Petén Development Program for Conservation of the Maya Biosphere Reserve (loan 1820/OC-GU) and the Galapagos Environmental Management Program (loan 1274/OC-EC).

²⁹ The 20 Aichi Biodiversity Targets reflect strategic objectives to be fulfilled by 2020. Target 11 states that areas for conservation are to be effectively and equitably managed, with an emphasis on biodiversity and ecosystem services.

³⁰ This strategy is further supported by the successful experience of the Panamá Viejo board in preserving and developing this area of Panama City. Created in 1995, the board prioritized restoration works and upgrading its management system. Key instruments included a management plan and a legally autonomous board. These reforms have enabled business transactions that now cover 50% of operational expenditures.

- 1.21 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the development challenge of productivity and innovation, by introducing new technologies for the surveillance of protected areas and tools for better management of prominent cultural assets. It is also aligned with the crosscutting themes of: (i) climate change and environmental sustainability, by promoting the management and sustainable use of natural heritage and the effective protection of vulnerable cultural assets; and (ii) institutional capacity and the rule of law, by strengthening the management systems of lead entities tasked with managing Panama's heritage sites. The program will also contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the aforementioned indicators. It is aligned with the Urban Development and Housing Sector Framework Document (document GN-2732-6), as it will contribute to the preservation of historical heritage; with the Environment and Biodiversity Sector Framework Document (document GN-2827-3), as it will help incorporate the economic value of environmental goods and services in productive sectors and infrastructure; and with the targets of the Tourism Sector Framework Document (document GN-2779-3), which identifies the development and protection of natural heritage assets and biodiversity as factors in tourism competitiveness. The program is also aligned with the targets of the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), as it promotes local development actions. It is included in the 2017 Operational Program Report (document GN-2884). About 5.95% of the loan proceeds will be invested in climate-change mitigation and adaptation activities, in accordance with the multilateral development banks' joint methodology for tracking [climate finance](#). These resources will also contribute to the IDB Group's target of increasing climate finance lending to 30% of its approvals by the end of 2020. As additionality, the program will identify opportunities to promote gender equality. To that end, the baseline will be broken down by gender in the creative industry ventures supported by the program (see Results Matrix).

B. Objectives, components, and costs

- 1.22 **Objective.** The objective of the operation is to help preserve and develop Panama's cultural and natural heritage sites. The specific objectives are to: (i) increase public access to cultural assets by managing them more effectively and rehabilitating two cultural heritage sites; (ii) preserve four protected natural areas by managing them more effectively and making them more financially sustainable; and (iii) increase business startups related to Panama's cultural and natural heritage.
- 1.23 **Component I. Modernization of heritage management instruments (US\$12.0 million).** This will have two subcomponents:
- a. **Strategic strengthening of INAC (US\$4.0 million).**³¹ This subcomponent will finance (i) support for the organizational re-engineering of INAC, including development and implementation of a strategic and organizational plan, strengthening of planning systems and monitoring and evaluation instruments, strengthening of strategic areas such as procurement and maintenance, and design and implementation of a change management strategy; (ii) design and

³¹ These institutional-strengthening activities will be complemented by activities financed in technical cooperation operation ATN/OC-16462-PN, which includes developing management instruments and tools.

implementation of the “QueCultura” platform to manage economic, statistical, and programmatic information in the sector; (iii) implementation of actions to promote creative industries by building INAC’s technical capacities, developing the business ecosystem through financing for startups, and implementing a promotion and dissemination plan;^{32,33} and (iv) design and implementation of a communication plan for INAC.

- b. **Support for sustainable management of protected areas³⁴ (US\$8.0 million).** This subcomponent will finance (i) priority actions to fulfill UNESCO’s recommendations; (ii) community activities for biodiversity conservation, support for implementation of co-management and concession arrangements, and creative-industry startups; and (iii) strategies for technological innovation for surveillance, control and monitoring, communication and promotion, and other activities identified in the corresponding management plan.³⁵

1.24 **Component II. Rehabilitation and development of cultural assets (US\$34.9 million).** This component includes three prominent assets:

- a. **TNP.** Financing will be provided to: (i) establish the TNP board with qualified technical and administrative teams,³⁶ and (ii) prepare and implement a development and management plan aimed at strengthening the TNP as the premiere theater in Panama.
- b. **MARTA.** This will include (i) rehabilitation and technical conditioning of the building and its surroundings, as well as construction of a storage area for the museum’s collection; (ii) development of museological features and programming, including curation of the collection and the visitor experience, as well as implementation of educational programs; (iii) establishment of the MARTA board with qualified technical and administrative teams;³⁷ and (iv) development and implementation of a management plan.
- c. **Portobelo and San Lorenzo fortifications.** For both, financing will be provided to: (i) implement priority actions as part of the emergency plan for preserving the fortifications (including activities for structural reinforcement, replacement of materials, and restoration of walls, floors, and cannons, as well

³² To the extent possible, the participation of local communities will be promoted, and specific activities will be designed based on strategies that promote gender equity. The program Operating Regulations will specify the eligibility criteria for beneficiaries and the procedures for allocating financing, together with the loan amount.

³³ For Portobelo specifically, four categories of creative industries have been identified: art, music, cuisine, and dance.

³⁴ Volcán Barú National Park, Coiba National Park, San Lorenzo protected area, Portobelo National Park, as well as other protected areas that could be identified during program execution (such as the Soberanía, Camino de Cruces, Chagres, and Altos de Campana National Parks) provided the Bank has given its no objection and the management plan and the corresponding public use plan have been approved.

³⁵ Provided the Bank has given its no objection, and fulfillment of the Bank’s environmental and social safeguard policies is verified.

³⁶ The salaries of TNP board staff members will be financed for two years, after which they will become part of the board’s payroll.

³⁷ The salaries of MARTA board staff members will be financed for two years.

as archeological works);³⁸ (ii) carry out technical studies and preventive work to protect the monuments;³⁹ (iii) provide basic tourism infrastructure (information desk, restrooms, dining service, administrative offices, among others) and rehabilitate the former customs building in Portobelo;⁴⁰ (iv) build the Portobelo and San Lorenzo board's capacities; and (v) develop the management plan for the fortifications.⁴¹

- 1.25 **Component III. Preservation and sustainable use of natural assets (US\$50.4 million).** This component will finance the provision of (i) services and infrastructure for visitors, researchers, and students (e.g., a visitors' center, interpretive focal points, guest cabins, pathways); (ii) construction and rehabilitation of access routes to natural attractions (e.g., piers, mooring buoys); (iii) provision and rehabilitation of facilities for administration and sustainable management of protected areas (e.g., checkpoints, operational buildings); and (iv) complementary infrastructure to develop the tourism potential of protected areas (e.g., landscape upgrades and rehabilitation of historical buildings), bringing together environmentally friendly designs, materials, and technologies (solar panels, water collection devices); among others. These activities will be implemented at strategic locations in the protected areas listed below, in accordance with their respective public use plans.⁴²
- a. **Coiba National Park.** Financing will be provided for (i) two visitation sites (Gambute and Central Penal), and (ii) an administrative center (Machete). The intervention in Coiba will also include preservation of the jailhouse (now in ruins) to allow for visitors ([optional electronic link 7](#)).
 - b. **Volcán Barú National Park.** Financing will be provided for (i) a visitation site (volcano peak—Los Fogones), and (ii) four checkpoints (volcano plains, Camiseta), including relocation of antennae as part of landscape restoration.⁴³
 - c. **San Lorenzo Protection Forest and Reserve and Portobelo National Park.** For the former, financing will be provided for (i) two visitation sites (Tortuguilla Beach and Achioté); (ii) an administrative center (San Lorenzo entrance—Sherman), and (iii) two access points (Gallo Pier and Chagres River Outlet).

³⁸ The plan includes works at the Santiago el Nuevo, Santiago el Viejo, San Jerónimo, and San Fernando fortifications (Portobelo) and at the castle (San Lorenzo).

³⁹ These will include geological and geotechnical studies and engineering works for soil stabilization (e.g., drainage) on the hillsides south of the Portobelo fortifications. These studies will address various climate change scenarios for the Portobelo area.

⁴⁰ This activity is subject to approval by INAC's board.

⁴¹ The management plan includes the preparation of plans, such as: archeological surveying, tourism management; economic sustainability, public use and load capacity, interpretive tours, and climate change adaptation and mitigation.

⁴² It could work in other protected areas identified during program execution (such as the Soberanía, Camino de Cruces, Chagres, and Altos de Campana National Parks) provided the Bank has given its no objection and the management plan and the corresponding public use plan have been approved.

⁴³ The intervention will be based on an action plan to be designed on the basis of technical and legal diagnostic assessments. The Bank's statement of no objection to the action plan is required before activities to relocate the antennae may commence.

For the latter, priority actions under the management plan for the protected area,⁴⁴ including the community development plan, will be financed.

- 1.26 **Program administrative expenses (US\$12.6 million).** Financing will be provided to form the execution units; for auditing, evaluation, and monitoring; and for the studies needed to fulfill the environmental and social management plan (ESMP) ([optional electronic link 2](#)).

C. Key results indicators

- 1.27 **Key indicators.** The program's main expected outcomes are (i) strengthened institutional capacity of INAC and the Ministry of the Environment, as measured by greater financial sustainability, among other factors; (ii) new businesses related to the targeted cultural and natural assets; and (iii) increased public access to the targeted cultural and natural assets within daily capacity limits. See the results matrix (Annex II) for a complete list of indicators. The main program beneficiaries will be (i) INAC and Ministry of the Environment staff members, with greater technical capacity and better instruments to manage the heritage sites they are responsible for protecting; (ii) local communities with access to new startup and job opportunities related to the targeted assets; and (iii) visitors and users, who are able to better enjoy and appreciate Panama's heritage sites.
- 1.28 **Economic evaluation.** A cost-benefit economic analysis ([optional electronic link 1](#)) was carried out for each of the program's interventions: MARTA, the Portobelo fortifications and the natural environment of Portobelo National Park, San Lorenzo fortification and its protected natural area, the Volcán Barú National Park and Coiba National Park. The program cost includes total investments projected for each of these interventions plus incremental costs for operation and maintenance, converted to their economic value. The interventions' economic benefits were estimated using the "willingness to pay" (WTP) method on data from 1,200 contingent valuation socioeconomic surveys conducted in March and April 2017. The five projects evaluated are socioeconomically viable with internal rates of return (IRR) above 20% (the social discount rate used in the analysis). The projects with the highest economic rates of return are those for Portobelo (IRR=55%) and Volcán Barú National Park (IRR=41%).
- 1.29 The sensitivity analysis included changes in investment costs and in WTP values. It showed that a rate of return above 12% on the interventions is robust to changes in costs or WTP values. The MARTA project is more sensitive: if investment costs increase by more than 23% or if the WTP value declines by 19%, the rate of return falls below 12% (IRR<12%). For the other four projects, the investment cost would have to increase by more than 45% for the rate of return to dip below 12%. Portobelo is the most robust project, with a critical value of +222%.

⁴⁴ The actions to be taken will be determined by the corresponding prefeasibility studies and could include measures related to improving: mobility for public use in Portobelo National Park, the quality of the experience in public spaces, public services for the expected visitation, or projects for enhancing tourist services. The Portobelo and San Lorenzo board will provide the design for a visitors' center at the San Lorenzo-Sherman entrance.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The total cost of the program is US\$113.2 million, to be financed by two investment loans. Each loan will finance activities related to the specific responsibilities of the respective entities. The first loan (INAC) will be for US\$46.2 million (US\$45 million from the Bank's Ordinary Capital and US\$1.2 million from the local contribution). The second loan (Ministry of the Environment) will be for US\$67.0 million (US\$62.0 million from the Bank's Ordinary Capital and US\$5.0 from the local contribution). The disbursement period for each loan will be five years. The following tables show the program's costs and disbursement schedule.

Table 1. Costs per loan (US\$ million)

Investment category	First loan (INAC)			Second loan (Ministry of the Environment)			Total	%
	IDB	Local contribution	Sub-total	IDB	Local contribution	Sub-total		
I. Modernization of heritage management instruments	4.0	0	4.0	8.0	0	8.0	12.0	10.5
a. Strategic strengthening of INAC	4.0	0	4.0	0	0	0	4.0	3.5
b. Support for sustainable management of protected areas	0	0	0	8.0	0	8.0	8.0	7.0
II. Rehabilitation and development of cultural assets	34.9	0	34.9	0	0	0	34.9	30.5
III. Preservation and sustainable use of natural assets	0	0	0	50.4	0	50.4	50.4	45.0
Subtotal	38.9	0	38.9	58.4	0	58.4	97.3	86.0
Administration	4.4	1.2	5.6	2.0	5.0	7.0	12.6	11.0
Contingencies	1.7	0	1.7	1.6	0	1.6	3.3	3.0
Total	45.0	1.2	46.2	62.0	5.0	67.0	113.2	100.0

Table 2. Disbursement schedule (US\$ million)

Source of financing	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
First loan (INAC)	5.5	13.5	16.9	5.0	5.3	46.2	41.0
IDB	5.4	13.2	16.7	4.8	4.9	45.0	40.0
Local contribution	0.1	0.3	0.2	0.2	0.4	1.2	1.0
Second loan (Ministry of the Environment)	13.9	26.8	13.2	7.3	5.8	67.0	59.0
IDB	13.3	25.6	12.2	6.2	4.7	62.0	55.0
Local contribution	0.6	1.2	1.0	1.1	1.1	5.0	4.0
Total	19.4	40.3	30.1	12.3	11.1	113.2	100.0
%	17.1	35.6	26.6	10.9	9.8	100.0	

- 2.2 The proposed financing structure will help advance the comprehensive view of Panama's heritage as an economic and cultural asset. This strategy effectively promotes interagency coordination between INAC and the Ministry of the Environment by creating venues for dialogue between these two entities, and between them and other interlocutors, both internal (mayor's office, tourism bureau) and external (UNESCO, private sector). It will also facilitate coordinated action at heritage sites with shared responsibility, such as the Portobelo and San Lorenzo site.
- 2.3 The main reason for using two loans to finance this operation⁴⁵ is that the executing agencies have different institutional ranks (a ministry and an institute) and are independent institutions with specific sector-oriented mandates (culture and the environment). Thus, they have different institutional and execution capacities. This financing structure will allow each executing agency to exert operational and financial control over the respective loan while maintaining close ties with each other for fulfillment of program objectives.

B. Environmental and social risks

- 2.4 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), this has been classified as a Category "B" operation because its negative impacts will be temporary and localized, and because effective measures are available to prevent and/or mitigate them. In accordance with the Disaster Risk Management Policy (OP-704), this operation has been classified as having a medium risk level due to Portobelo's vulnerability to landslides. Another medium-level risk was identified in INAC's limited institutional capacity to manage the program's potential social and environmental impacts; an environmental specialist and a social specialist will be included in the management team for this reason.
- 2.5 An environmental and social analysis (ESA) and the corresponding ESMP ([optional electronic link 2](#)) for the works described in the ESMR were carried out in preparing

⁴⁵ A similar modality was used in operation PR-L1081, which was financed through three loans (3354/OC-PR-1; 3354/OC-PR-2; and 3354/OC-PR-3).

the operation. Potential environmental impacts during construction are related to (i) generation of dust, noise, waste, and debris; (ii) vehicular congestion; and (iii) occupational health and safety risks. While projects are being carried out in the protected areas, an increase in visitors beyond capacity could generate cumulative impacts that might result in environmental degradation, for which plans to manage the increase in the flow of visitors will be prepared. The mitigation measures are specified in the ESMP, which will be updated to include any change to the activities/works analyzed. The ESMP includes guidelines for designing and implementing a community participation plan, including a mechanism for complaints and claims.

- 2.6 In preparing the ESA/ESMP, 22 key stakeholders were consulted, including the Ministry of the Environment, INAC, directors in charge of protected areas, and heads of social organizations. In addition, a public hearing was held in March 2017 in Portobelo to present the projects along with their potential impacts and mitigation measures, thereby fulfilling the Bank's consultation requirements ([required electronic link 3](#)). To strengthen ownership of the project among the Portobelo population, various meetings were held with the community. Based on this, the community development participatory plan was prepared, which identified proposals for specific interventions that have been included in the program (e.g. the rehabilitation of the former Portobelo customs house).
- 2.7 The program includes the implementation of priority projects that will be identified in the Portobelo priority area management plan. Before each works project is put out for bid, the respective ESA/ESMP must be prepared, submitted to public consultation, and presented to the Bank. Any activity or works within potential new protected areas must comply with the Bank's safeguard policies and not result in physical resettlement of or adverse impacts to indigenous peoples.

C. Fiduciary risks

- 2.8 The executing agencies' institutional capacity was analyzed during the design process for the program, and no significant fiduciary risks were found. The risk management workshop identified a medium-level risk of procurement delays due to the executing agencies' lack of experience with and knowledge of Bank policies. To mitigate this risk, and for the sake of efficiency, procurement items for both loans were grouped into packages of similar activities. In addition, a training workshop on the Bank's procurement policies will be held to train the executing agencies' staff. The Panamanian government is in the process of implementing the new accounting and budgeting system known as ISTMO (Technological Solutions and Integration of the Operational Management Model). Steps will be taken to ensure that the executing agencies have the training they need and that the system is parameterized to manage the budget, commit expenditures, and issue payments for the program.

D. Other project risks

- 2.9 The following were classified as medium-level risks: (i) a lack of coordination between the executing agencies and between them and relevant local and international agents; this risk will be mitigated by forming a technical coordination committee; and (ii) limited management capacity of entities responsible for managing the services and new infrastructure that will benefit from the program. This

latter risk will be mitigated through technical strengthening and development of management plans, which for INAC (first loan) will be executed and financed through boards of directors funded by the operation of rehabilitated assets and resources allocated by INAC, and which for the Ministry of the Environment (second loan) will be executed and financed by implementing concession mechanisms in protected areas.

- 2.10 For the first loan, a high-level risk of delays in execution was identified due to INAC's limited capacity to carry out key operational and technical processes. To mitigate this risk, a management unit and specialized technical assistance will be commissioned. The following medium-level risks were identified: (i) resistance to changes in INAC's institutional reform process, for which a change management strategy will be developed and implemented; and (ii) harm to cultural heritage sites due to interventions not consistent with international standards, for which INAC's capacities will be strengthened with advisory services for implementation of international standards.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Republic of Panama. The executing agencies will be INAC and the Ministry of the Environment. For the first loan, INAC will be responsible for Component I(a) and Component II. For the second loan, the Ministry of the Environment will be responsible for Component I(b) and Component III. Each executing agency will be responsible for the corresponding administrative, evaluation, and auditing activities.
- 3.2 The two loans will be executed through independent execution units. **As a special contractual condition precedent to the first disbursement of each loan, the respective execution unit must have been created ([optional electronic link 10](#)).** The Ministry of the Environment's execution unit will report to the Executive Office, will be under the technical supervision of the National Protected Areas and Wildlife Office, and will deal directly with the Bank. For INAC, the execution unit will report to the highest respective institutional authority and will deal directly with the Bank. They will be responsible for planning and management related to technical, budgetary, administrative, procurement, and financial/accounting matters, as well as monitoring and evaluation. The executing agencies will be solely and exclusively responsible for managing their corresponding loan proceeds.
- 3.3 Each execution unit will include a general coordinator hired specifically for this purpose. The general coordinators will be responsible, within their purview, for (i) interaction with the Bank, (ii) disbursement requests, (iii) proposed procurements, (iv) reports on use of resources, and (v) submittal of the multiyear execution plan and annual work plans ([INAC / Ministry of the Environment](#)), procurement plans ([INAC / Ministry of the Environment](#)), progress reports, audit reports, and evaluation reports to the Bank. The general coordinators will also be responsible for taking steps to ensure proper use and transparency of the funds under their purview.
- 3.4 **As a special contractual condition precedent to the first disbursement of the first loan, a general coordinator, procurement specialist, and administrative/financial specialist are to have been selected, under the terms previously**

agreed on with the Bank. The INAC execution unit will also have a specialist in cultural creative industries, a process reengineering specialist, and a specialist in cultural heritage management plans.

- 3.5 INAC will also have a management entity for technical support, which will assist the execution unit in managing processes for planning and monitoring, preparing technical and bidding documents, managing contracts, supervising works, pre-verifying payments, and providing operational support for prioritized logistical needs. The management entity will have the following core team: (i) a manager, (ii) a planning and monitoring specialist, (iii) an environmental specialist, (iv) a social specialist, and (v) a specialist in restoring fortifications. These team members need to be hired for the reasons explained in paragraph 2.10 and in [optional electronic link 10](#).
- 3.6 **As a special contractual condition precedent to the first disbursement of the second loan, a general coordinator, planning and monitoring specialist, procurement specialist, financial specialist, social specialist, and environmental specialist are to have been selected, under the terms previously agreed on with the Bank.**
- 3.7 **Program coordination.** A technical coordination committee (TCC) will be formed to ensure the program's comprehensive approach, effective coordination between the execution units, and coordinated execution of activities under their purview. The TCC, consisting of INAC and the Ministry of the Environment, will be the consultative and interagency-coordination body for addressing specific, shared technical matters on an ad hoc basis, in response to any needs that arise during execution. In addition to its coordinating role, the TCC will also play an important role as the interlocutor for facilitating dialogue with agents both local (mayor's offices, boards, Panama Bureau of Tourism) and international (UNESCO), on activities related to preserving and developing the heritage sites linked to the program. The TCC's operating mechanism will be specified in the program Operating Regulations.
- 3.8 **Operating Regulations.** Each loan will be executed in accordance with its corresponding Operating Regulations. These regulations will provide detailed information on the execution of each loan and will set forth the program's execution strategy for each loan, including (i) the corresponding organizational structure; (ii) technical and operational arrangements for execution, including environmental and social requirements; (iii) arrangements for programming, monitoring, and evaluating results; (iv) guidelines for financial, auditing, and procurement processes; and (v) detailed information on the execution unit's duties, as well as those of other program-related entities. The annexes to the Operating Regulations will include, at a minimum, (i) a results matrix, (ii) fiduciary agreements and requirements, (iii) a monitoring and evaluation plan, (iv) an itemized budget, and (v) an ESMP. **As a special condition precedent to the first disbursement of the proceeds for each loan, the respective program Operating Regulations, previously agreed to with the Bank, are to have been approved and entered into force.**
- 3.9 **Procurement of works, goods, and services.** Works and goods will be procured and consulting services selected in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9).

- 3.10 **Single-source selection.** Single-source selection of Fundación Ciudad del Saber is proposed for the activities under Component I(a)(ii–iii). This is justified because Fundación Ciudad del Saber is the only firm with exceptional experience performing such services, as indicated in 3.10(d) of the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) (see Annex III).
- 3.11 **Retroactive financing.** The Bank may retroactively finance, as a charge against the proceeds of the first loan, up to US\$9.0 million (20% of the loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date for the procurement of goods, nonconsulting services, works, and consulting services, provided that requirements substantially similar to those established in the loan contract have been met. The same conditions apply for up to US\$12.4 million on the second loan (20% of the loan amount). Such expenditures must have been incurred on or after 23 February 2017 (the project profile approval date) but may under no circumstances include expenditures incurred more than 18 months prior to the loan approval date.

B. Summary of arrangements for results monitoring

- 3.12 **Monitoring.** To monitor and evaluate the execution of each loan, a system will be implemented with a focus on: (i) fulfillment of program activities; and (ii) attainment of the output and outcome indicators listed in the results matrix. The following instruments will be used for each loan: (i) results matrix, (ii) multiyear execution plan, (iii) annual work plans (AWPs), (iv) monitoring and evaluation plan, (v) procurement plan, (vi) risk management matrices, (vii) semiannual progress reports, and (viii) audited financial statements. A joint annual meeting between each executing agency and the Bank will be held to discuss, *inter alia*: (i) progress on the activities identified in the AWP; (ii) fulfillment of indicators for each component; (iii) the AWP for the upcoming year; (iv) the procurement plan for the next 18 months and possible changes in budgetary allocations to each component (see [required electronic link 2](#)), and (v) monitoring of project risk matrices.
- 3.13 **Evaluation.** The results matrix and the monitoring and evaluation plan will be used to evaluate each loan. The program calls for a midterm evaluation, a final evaluation, and an ex post cost-benefit analysis for each loan, all of which will address technical, administrative, and financial considerations. The midterm evaluation will be carried out when at least 40% of the proceeds have been disbursed or when two and a half years have elapsed since the loan contract entered into force (whichever occurs first). The main objectives of this evaluation are to review progress on all activities programmed up until that time, identify any deviations and their causes, and propose corrective measures, in addition to verifying midterm outputs, reviewing the materialization of risks identified in the corresponding matrix, and implementing mitigation measures. The final evaluation for each loan will be carried out when 90% of the respective loan has been disbursed, and its objectives will be to verify progress toward the targets for each expected outcome and to verify the attainment of outputs for each component.
- 3.14 The ex post cost-benefit analysis will be carried out after the last disbursement for each loan. This analysis will use the same methodology as the ex ante economic analysis of this operation, and its objective will be to verify the program's economic viability. It will be based on the administrative records of INAC, and the Ministry of

the Environment. Upon completion of the final evaluation for each loan, and once the ex post cost-benefit analysis has been carried out, these reports will be consolidated to determine the extent to which the program's general objectives have been fulfilled.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Beneficiaries of improved management and sustainable use of natural capital (#)* -Micro / small / medium enterprises financed (#)* -Terrestrial and marine areas with improved management (ha)* -Beneficiaries of improved management and sustainable use of cultural capital (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix		
Country Program Results Matrix	GN-2284	The intervention is included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
3. Evidence-based Assessment & Solution	Evaluable	
3.1 Program Diagnosis	9.1	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	4.0	
3.3 Results Matrix Quality	2.7	
4. Ex ante Economic Analysis	8.5	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	0.0	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	6.6	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	4.1	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: External Control. Procurement: ontracting Individual Consultant.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Technical assistance was provided through Technical Cooperation PN-T1174.
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

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

The objective of the program is to contribute to the preservation and enhancement of the cultural and natural heritage of the country. The specific objectives are: (i) to increase the population's access to cultural heritage properties, rehabilitating three cultural heritage properties and improving their management; (ii) preserve four protected natural areas by improving their management and increasing their financial sustainability; and (iii) increase entrepreneurship linked to the cultural and natural heritage of the country.

The project presents a complete diagnosis, it includes a precise description of the current situation of the cultural heritage properties and protected natural areas. It also describes the institutional capacity of the Ministries involved. In terms of the results matrix, outcome indicators reported are SMART and have means of verification.

The economic analysis of the project was performed through a cost-benefit analysis for each cultural heritage property and national park. The ACB is consistent with the program logic; it has reasonable assumptions and uses a rigorous methodology. This analysis concluded that all the projects have an ERR that ranges from 22% to 55% (using a 12% discount rate).

The project includes a monitoring and evaluation plan. The effectiveness of the proposed intervention will be measured following different methodologies: an

The risks identified in the risk matrix are rated for magnitude; they include mitigation measures and related metrics to track their implementation.

RESULTS MATRIX

Project objective	The objective of the operation is to help preserve and develop Panama's cultural and natural heritage sites. The specific objectives are to: (i) increase public access to cultural assets by managing them more effectively and rehabilitating two cultural heritage sites; (ii) preserve four protected natural areas by managing them more effectively and making them more financially sustainable; and (iii) increase business startups related to Panama's cultural and natural heritage.
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EXPECTED OUTCOMES¹

EXPECTED OUTCOMES										
Indicators		Unit of measure	Baseline		Interim measurements		Target		Source / Means of verification	Comments
			Value	Year	Value	Year	Value	Year		
CULTURAL HERITAGE										
Expected outcome 1: Strengthened management of INAC										
1.1	Annual own revenues as a percentage of INAC's total annual budget	% of revenue	2	2016			7	2022	Progress reports from second half of each year	INAC has its own revenues from the leasing of theaters and parking lots, museum entrance fees, and enrollment fees at the Schools of Fine Arts and Folklore, among other things.
1.2	Annual usage of Panama's cultural information system (SICP)	Hits/year	0	2017			30,000	2022	SICP website Progress reports from second half of each year	
Expected outcome 2: Cultural assets rehabilitated and developed										
2.1.	Beneficiaries of better management and sustainable use of cultural capital	# of beneficiaries	39,500	2016			55,000	2022	Board and program status reports	National and international tourists visiting the Portobelo and San Lorenzo fortifications
2.2.	Average daily visits to MARTA, per year	# of visits	0	2017			120	2022	Management reports from the coordination office	The current average among all public museums in the country (other than MARTA) is 213.
2.3.	Fortifications targeted by the project are removed from UNESCO's List of World Heritage in Danger	# of fortifications	0	2017			1	2022	UNESCO List of World Heritage in Danger	The targeted fortifications have been on the List of World Heritage in Danger since 2012. UNESCO measures these fortifications as a single unit.

¹ The respective execution unit's planning and monitoring specialist will collect data for all outcomes and outputs on both cultural and natural heritage.

Indicators	Unit of measure	Baseline		Interim measurements		Target		Source / Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
2.4. Program-financed startups with ties to cultural assets, now in operation	% of projects	0	2017			30	2022	Project status reports	
NATURAL HERITAGE									
Expected outcome 3: Protected natural areas being used sustainably									
3.1 Financial gap in management of Coiba National Park (PNC) ²	%	44	2016			40	2022	SINAP management report and project status reports	The ratio of own revenues to management expenses. This refers exclusively to the PNC, since its revenues account for 86% of total revenue for the four targeted areas (US\$466,000 of US\$542,000).
3.2 Effectiveness in managing the targeted protected areas	footnote ³	48	2016			60	2022		The baseline is the average benchmark value of the monitoring tool for the four protected areas in the SINAP Management Effectiveness Monitoring Program (PMEMAP), consisting of 33 indicators grouped into five management categories.
Expected outcome 4: Natural assets preserved and being used sustainably									
4.1 The PNC remains on UNESCO's World Heritage List	#	1	2017			1	2022	UNESCO World Heritage List	UNESCO issued a series of urgent recommendations so it would not be placed on the List of World Heritage in Danger.
4.2 Average annual number of visits to the PNC as a percentage of effective load capacity (ELC) ⁴	% of visits	39	2016			67	2022	SINAP management report and	This is for Gambute Bay, the most heavily visited area, which received an annual average of 41 visits per day in

² This indicator will be updated as soon as information is gathered for other parks.

³ In accordance with study methodology and outcomes. The instrument scores according to five levels of management: (i) 0-25: unacceptable; (ii) 26-50: poor; (iii) 51-75: fair; (iv) 76-90: acceptable; and (v) over 90: satisfactory.

⁴ Effective load capacity is the maximum number of visits that can be managed in an orderly fashion. It is determined by comparing the actual load capacity to the management capacity for the area, which is defined as the totality of conditions that the administration of a protected area needs to fulfill its duties and objectives.

Indicators	Unit of measure	Baseline		Interim measurements		Target		Source / Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
								project status reports	2016, compared to an ELC of 105.
4.3 Average annual number of visits to the PNP as a percentage of ELC	% of visits	35	2016			60	2022		This is for Sendero Pavón, the most heavily used of the two pathways. In 2016, it had an average of 54 visits per day, compared to an ELC of 153.
4.4 Average annual number of visits to the PNVB as a percentage of ELC	% of visits	13	2016			25	2022		This is for Via Camiseta, the most heavily used pathway, which had an annual average of 25 visits per day in 2016, compared to an ELC of 139.
4.5 Hectares of land and waterways with improved management in the context of biocorridors and natural ecosystems	# of hectares	0	2017			313,569	2022		PNC: 254,822 hectares; PNVB: 35,838 hectares; Portobelo and San Lorenzo protected areas: 22,909 hectares. Improved management will be measured by outcome 3.2.
4.6 Startup projects related to program-financed protected areas now in operation	% of projects	0	2017			30	2022	Project status reports	Aimed at encouraging local entrepreneurial capacity by promoting tourism projects in protected areas through microentrepreneurial partnership arrangements, ongoing training for entrepreneurs, and assistance in developing and managing tourism projects.
4.7 Beneficiaries of better management and sustainable use of natural capital	# of beneficiaries	0	2017			150,000	2022		Measured annually with the PMEMAP. Once the protected area achieves a 10% increase over its current number, ⁵ annual visitors will be counted as beneficiaries. The target is cumulative for all four

⁵ Weighted total for PMEMAP (2016): PNC (57); PNP (38); PPSL (50); PNVB (47).

Indicators	Unit of measure	Baseline		Interim measurements		Target		Source / Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
									protected areas. They will be disaggregated on an annual basis in the PMR.

OUTPUTS

CULTURAL HERITAGE											
Outputs	Unit of measure	Cost	Base-line	Year 1 ⁶	Year 2	Year 3	Year 4	Year 5	Final target ¹	Means of verification	Comments
Component I. Modernization of heritage management instruments											
Subcomponent I(a): Strategic strengthening of INAC											
O1. INAC strategic strengthening plan, implemented	# of plans	790,000	0					1	1	- Diagnostic assessment report and re-engineering proposal, approved	
O2. Training of INAC personnel in implementing the new management model, completed	# of workshops	400,000	0			100	100		200	- Report on workshops - Attendance list and notes	
O3. Integrated management information system for INAC, created	# of systems	815,000	0				1		1	- Design document /system architecture - Implementation reports issued by the system - Operation reports issued by the system	Includes system development and implementation
O4. Panama's QueCultura cultural information system, implemented	# of systems	250,000	0					1	1	- System implementation model report - Operation reports issued by the system	"Implemented" means a model for coordinating actors has been developed for updating the system and actions to upgrade the system have been executed.
O5. Cultural heritage communication and promotion plan, implemented	# of plans	210,000	0				1		1	- Plan report - Semiannual report	"Implemented" means the plan's priority activities have been executed.

⁶ This corresponds to the 12-month period starting from when the loan contract takes effect.

CULTURAL HERITAGE											
Outputs	Unit of measure	Cost	Base-line	Year 1 ⁶	Year 2	Year 3	Year 4	Year 5	Final target ¹	Means of verification	Comments
O6. Action plan to promote creative industries for heritage assets, implemented	# of plans	390,000	0					1	1	- Action plan report - Semiannual program progress report - Procurement plan evaluation report	Creative industries correspond to startups offering services related to targeted heritage assets.
O7. Training of entrepreneurs in business and specialized skills for each targeted heritage asset, completed	# of courses	150,000	0		50	50	50		150	- Training execution report	Correspond to entrepreneurs offering services related to targeted heritage assets.
O8. Micro, small, and medium-sized enterprises (MSMEs) financed	# of MSMEs	995,000	0			57			57	- Project management and accounting reports	Includes pilot financing of startups in dance, music, cuisine, and art in Portobelo for organizations such as Fundación Olga Sinclair, Fundación Danilo Perez, Fundación Encuentro, and Fundación Espacio Creativo.
Milestone 1: MSMEs run by women, financed	# of MSMEs		0		29		29				
Milestone 2: MSMEs run by men, financed	# of MSMEs		0		28		28				
Total subcomponent I(a):		4,000,000									
Component II. Rehabilitation and development of cultural assets											
Subcomponent II(a): National Theater of Panama											
O9. Theater management plan implemented	# of plans	943,600	0				1		1	- Plan management report	“Implemented” means development of the plan, execution of the plan’s priority activities, resources for the board, and initial activities for theater operation.
Total subcomponent II(a):		943,600									
Subcomponent II(b): MARTA											
O10. Museum rehabilitated,	# of museums	11,057,500	0			1			1	- Final reception certificates for	

CULTURAL HERITAGE											
Outputs	Unit of measure	Cost	Base-line	Year 1 ⁶	Year 2	Year 3	Year 4	Year 5	Final target ¹	Means of verification	Comments
expanded, equipped, and installed										works, equipment, and services	
O11. Museum management instruments implemented	# of instruments	559,000	0					3	3	- Plan management report	"Implemented" means development of instruments, execution of prioritized activities, resources for the board, and initial activities for museum operation.
Total Subcomponent II(b): 11,616,500											
Subcomponent II(c): Portobelo and San Lorenzo fortifications											
O12. Containment works at Portobelo completed	# of works	2,000,000	0			1			1	- Final work reception certificate	
O13. Forts at Portobelo restored and rehabilitated	# of forts	12,680,000	0			2	1	1	4	- Final work reception certificate	
O14. Multiservice station (restrooms, administrative offices, immigration and customs offices, ticket windows) built and/or rehabilitated	Works	600,000	0			1			1	- Final work reception certificate	
O15. Piers built and/or rehabilitated	Works	750,000	0			2			2	- Final work reception certificate	Includes restoration of the Santiago pier and construction of the San Fernando pier
O16. San Lorenzo fort restored and rehabilitated	# of forts	4,094,900	0			1			1	- Final work reception certificate	
O17. Comprehensive management plans for the San Lorenzo and Portobelo		920,000	0	1	1	1	1	1	5	- Plan document - Plan management report	This could include: plans for PPS management; archeological surveying; tourism management—promotion,

[illegible]

NATURAL HERITAGE											
Outputs	Unit of measure	Cost	Base line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target ¹	Means of verification	Comments ²
Component I. Modernization of heritage management instruments											
Subcomponent I(b): Support for management of protected areas											
O21. Business plans completed	# of plans	544,000	0	5	10	5			20	-Report on approved business plans	Plans for establishing businesses in parks or communities with ties to the parks.
O22. Training of entrepreneurs in business skills and in providing services related to the targeted parks, completed	# of workshops	780,000	0		6	7	2		15	-Training execution report -Attendance list	This training is for community members who intend to carry out startups related to the parks.
O23. Micro, small, and medium-sized enterprises financed	# of MSMEs	150,000			4	4	8		16	-Project management and accounting reports	MSMEs financed, to provide services related to the targeted parks.
O24. Training on environmental matters for the community related to green tourism, completed	# of workshops	200,000			1	2	1		4	-Training execution report -Attendance list	
O25. Strategy for new technologies for monitoring, control, and surveillance of the four protected areas, implemented	# of workshops	1,200,000	0		1				1	-Semiannual project status report -Reports on receipt of strategies / new technologies	"Implemented" means supporting patrolling and surveillance activities by providing high-tech equipment to detect illegal fishing vessels, controlling load capacity, and monitoring conservation targets in protected areas.
O26. Landscape solution project at the volcano's peak, developed	# of projects	1,993,400	0			1			1	-Project final report	Includes design of action plan and implementation of actions in order of priority.
O27. Digital platforms for better coordination and linkage of service providers at the parks and	# of platforms	1,132,000	0		1	2	2		5	-Management reports on service provision	

NATURAL HERITAGE											
Outputs	Unit of measure	Cost	Base line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target ¹	Means of verification	Comments ²
for online fee collection for protected areas, developed											
O28. Communication plan for targeted protected areas, designed and implemented	# of plans	700,000	0			1			1	-Communication plan report -Implementation report	This means contracting the company and implementing the plan.
O29. Studies to fulfill UNESCO recommendations, prepared	# of studies	1,000,000	0	2	2	1	1		6	-Report on studies	
O30. Biosecurity plan for protected areas, designed and implemented	# of plans	300,000	0	1					1	-Plan document -Plan execution report	
Total Subcomponent I(b): 7,999,400											
Component III. Conservation and development of natural assets											
O31. PNC rehabilitated for preservation	#	27,500,000	0			1			1	-Final works reception certificate	Includes building and/or rehabilitating visitor sites, pathways, and administrative center
O32. Portobelo and San Lorenzo National Park rehabilitated for preservation	#	20,800,600	0		1			1	1	-Final works reception certificate	Includes building and/or rehabilitating visitor sites, pathways, administrative center, and construction of piers in Portobelo and San Lorenzo. It could include works related to improving mobility, public space and recreational areas, enhancements to public services, projects for improving tourist services (visitors' centers) or other priority activities in the management plan.

NATURAL HERITAGE											
Outputs	Unit of measure	Cost	Base line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target ¹	Means of verification	Comments ²
O33. PNVB rehabilitated for preservation	#	2,100,000	0		1				1	Final works reception certificate	Includes building and/or rehabilitating visitor sites, pathways, and checkpoints
Total Component III:	50,400,600										

Amount in US\$

INAC

Direct costs	38,900,000
Administration, auditing, and evaluation	5,600,000
Contingencies	1,700,000
Subtotal INAC:	46,200,000

Ministry of the Environment

Direct costs	58,400,000
Administration, auditing, and evaluation	7,000,000
Contingencies	1,600,000
Subtotal Ministry of the Environment:	67,000,000

Total program components:	97,300,000
Total administration	12,600,000
Total contingencies	3,300,000
Total program	113,200,000

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Panama
Project number/name: PN-L1146 - Support for the Conservation and Management of Cultural and Natural Heritage
Executing agency: National Culture Institute (INAC) and Ministry of the Environment
Prepared by: David Ochoa and Ezequiel Cambiasso (FMP/CPN)

I. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 1.1 The project will be executed by INAC and the Ministry of the Environment through specific project execution units formed for the respective components and/or outputs. The Ministry of the Environment's execution unit will report to the Executive Office, will be under the technical supervision of the National Protected Areas and Wildlife Office, and will deal directly with the Bank. For INAC, the execution unit will report to the highest respective institutional authority and will deal directly with the Bank. They will be responsible for planning and management related to technical, budgetary, administrative, procurement, and financial/accounting matters, as well as monitoring and evaluation. The executing agencies will be responsible for managing their corresponding loan proceeds. INAC will have a management entity that will assist the execution unit in managing processes for planning and monitoring, preparing technical and bidding documents, managing contracts, supervising works, pre-verifying payments, and providing operational support to cover priority logistical needs.

II. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 2.1 The executing agencies' institutional capacity was analyzed during the design process for the program, and no significant fiduciary risks were found. The risk management workshop identified a medium-level risk of procurement delays due to the executing agencies' lack of experience with and knowledge of Bank policies. To mitigate this risk, and for the sake of efficiency, procurement items for both loans were grouped into packages of similar activities. In addition, a training workshop on the Bank's procurement policies will be held to train the executing agencies' staff. The Panamanian government is in the process of implementing the new accounting and budgeting system known as ISTMO (Technological Solutions and Integration of the Operational Management Model). Steps will be taken to ensure that the executing agencies have the training they need and that the system is parameterized to manage the budget, commit expenditures, and issue payments for the program.

III. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 3.1 The agreements and requirements to be considered in the special provisions are as follows:

- a. Because each executing agency will independently maintain accounting records for its portion of the loan, each executing agency will be asked to individually submit annual audited financial statements for the program.
- b. Each executing agency will have a subloan in the Bank's disbursement system (WLMS) to ensure that one executing agency's advances and justifications are not affected by the other's.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The fiduciary agreements and requirements for procurement contain provisions that apply to all procurement processes for the program.

A. Procurement execution

- 4.2 The Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) will apply.
 - a. **Procurement of works, goods and nonconsulting services.** International competitive bidding (ICB) processes will be executed using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) and shopping will be executed using models specified by the Bank for this operation. The project's sector specialist is responsible for reviewing the technical specifications for procurement during the preparation of selection processes.
 - b. **Selection and contracting of consultants.** Consulting service contracts arising under the project will be executed using the standard request for proposals issued by the Bank. The project's sector specialist is responsible for reviewing the terms of reference for the contracting of consulting services.
 - c. **Selection of individual consultants.** Individual consultants will be selected in view of their ability to perform the work, based on a comparison of the qualifications of at least three candidates.
 - d. **Use of country procurement system.** The Bank's Board of Executive Directors approved (document GN-2538-11) the use of subsystems for framework agreements up to the NCB threshold of US\$250,000 and for small procurements for up to US\$50,000, which may change if the Bank approves higher levels.
 - e. **Retroactive financing.** The Bank may retroactively finance, as a charge against the proceeds of the first loan, up to US\$9.0 million (20% of the amount of the first loan) in eligible expenditures incurred by the borrower prior to the loan approval date for the procurement of goods, nonconsulting services, works, and consulting services, provided that requirements substantially similar to those established in the loan contract have been met. The same conditions apply for up to US\$12.4 million on the second loan (20% of the loan amount). Such expenditures must have been incurred on or after 23 February 2017 (the project profile approval date) but may under no circumstances include expenditures incurred more than 18 months prior to the loan approval date.

- f. **Single-source selection (SSS).** Based on paragraph 3.10(d) of document GN-2350-9, the single-source selection of Fundación Ciudad del Saber is proposed in the amount of US\$1,369,000 for activities under Component I(a)(ii) to implement the information system and activities under Component I(a)(iii) for the creative industries. The use of single-source selection is based on this entity's unique experience in Panama in designing and implementing similar information systems, as well as its familiarity with the sector. In addition, its exceptional technical capacity and experience are borne out by its effectiveness in startup incubation and acceleration, as well as its knowledge of the country and its environment.
 - g. **Recurrent costs.** The Bank may finance recurrent costs related to the salaries of two staff members on the TNP board and two additional staff members on the MARTA board, each of them for a period of two years, in accordance with INAC's request. These expenses are necessary to achieve the program's development objectives and to ensure proper management of the boards. After two years, these staff members will become part of INAC's payroll, which will be made possible by the expected increase in INAC's revenues, thus ensuring sustainability over time.
 - h. **Domestic preference:** Not applicable.
 - i. **Procurement plan.** The Procurement Plan Execution System (SEPA) or its successor will be used as the electronic system for monitoring procurement.
- B. Procurement thresholds (US\$)**

Table 1. Procurement thresholds

Works			Goods			Consulting services	
ICB	NCB/ shopping	Shopping for complex works	ICB	NCB/ shopping	Shopping for complex works	International	National
Greater than or equal to \$3,000,000	Greater than \$250,000 and less than \$3,000,000	Less than \$250,000	Greater than or equal to \$250,000	Greater than \$50,000 and less than \$250,000	Less than \$50,000	Greater than \$200,000	Less than or equal to \$200,000

C. Main procurement items

Table 2. Main procurement items

Activity	Type	Estimated amount (US\$)
Works		
Construction company to execute civil works for comprehensive restoration and provision of theater technology equipment for the TNP	ICB	12,500,000
Company to execute civil works for rehabilitation, provision of equipment, and protection of MARTA	ICB	10,454,000
Company for construction work and/or execution of civil works for rehabilitation of Portobelo and San Lorenzo	ICB	16,266,500
Company for construction and/or rehabilitation of basic service modules at Santiago el Nuevo and San Fernando forts, including a bus stop and handicrafts market	ICB	1,213,500
Company for construction and/or rehabilitation of civil works at Coiba National Park: Gambute, Central Penal, and Machete, including provision of basic services as programmed	ICB	4,345,000
Consulting services		
Management firm for support services in fiduciary and technical management, works supervision, and environmental and social supervision, including logistics	QCBS	4,500,000
Consulting firm to prepare business plans and/or management proposals, carry out activities to strengthen community organizations and promote the creation of social capital, and train transportation providers	QCBS	1,050,000

D. Procurement supervision

- 4.3 Prior reviews will be conducted of all ICB and single-source selection processes for goods, works, and nonconsulting services. Prior reviews will be conducted of selections of consulting firms for more than US\$200,000 and single-source selection processes. All other contracts will be reviewed as determined on a case-by-case basis in the procurement plan.

E. Special provisions

- 4.4 None expected.

F. Records and files

- 4.5 The executing agency will maintain updated records and well-organized files so that they may be reviewed by the Bank in accordance with the following guidelines:
- The file containing procurement documentation will be in a single file or folder that makes it easy to distinguish from processes financed by the local contribution or through nonprogram resources.
 - Documents will be maintained and kept duly organized, collated, and numbered so that they may be clearly and immediately located and identified, and they will be available at all times for the Bank to review and for auditing purposes.

V. FINANCIAL MANAGEMENT

A. Programming and budget

- 5.1 The Ministry of Economy and Finance (MEF) is responsible for preparing and controlling the budget. By 31 July of each year, the MEF will submit a proposed budget to the National Assembly, which is responsible for approving the budget or any budgetary increase. The budget is annual and includes all public-sector investments, revenues, and outlays. The budget law for 2018 established SINIP codes and line items for Bank financing and the local contribution. After the loan is approved, each executing agency will request allocation of their respective budget.

B. Accounting and information systems

- 5.2 In order to modernize governmental management, Panama's national government, acting through the MEF and the National Accounting Office (DNC), is in the process of implementing the accounting and budgeting system known as ISTMO (Technological Solutions and Integration of the Operational Management Model). Each executing agency will work with the DNC as necessary to obtain its user names, training, and system parameterization in order to manage the budget, commit expenditures, and issue payments. Because this is a new system, it has not been evaluated¹ for use in Bank-financed projects, and use of a parallel system is required.
- 5.3 Accounting activity will be governed by policies issued by the Office of the Comptroller General (CGR), which are not aligned with the International Public Sector Accounting Standards.

C. Disbursements and cash flow

- 5.4 In the second half of 2013, Panama passed a law establishing use of a single treasury account (CUT). The CUT began to be implemented at the end of 2014 on the MEF accounts and in 2015 at some ministries. An evaluation of the CUT and its role in implementing ISTMO is planned for 2017 to determine whether it can be used in Bank-financed projects.
- 5.5 The Bank will transfer the resources to a program-exclusive account at a financial institution, which will be opened by each executing agency. Disbursements will be made in the form of advances² to cover liquidity needs in accordance with the applicable financial plan for up to 180 days, and a subsequent disbursement may be requested when accounts have been rendered for 80% of the cumulative funds pending justification. Providers may also be reimbursed or paid directly.
- 5.6 The initial financial plan indicates that US\$19.4 million in disbursements from the Bank will be needed in 2018.

D. Internal control and internal auditing

- 5.7 As a result of the CGR's prior control, the internal control and internal audit systems of government entities are weak because they rely on the CGR's control efforts instead of having effective processes and controls. Thus, these systems are not deemed adequate for the control needed on projects.

¹ ISTMO will be evaluated in 2017 to assess the status of its implementation.

² In accordance with operational policy OP-273-6.

E. External control and reports

- 5.8 The CGR has focused its efforts on preaudits of the disposition of government assets, and it is weak as an auditing entity. Moreover, because of its involvement in administrative processes through preaudits, it lacks the independence needed to conduct audits. For this reason, it is deemed to lack the capacity to conduct external control of the program.
- 5.9 The project's financial statements, audited on an annual basis for each executing agency by an independent auditing firm acceptable to the Bank, will be requested within 120 days after the end of each fiscal year or after the date of the last disbursement.

F. Financial supervision plan

- 5.10 Financial supervision will focus on the auditors' reports mentioned in the preceding paragraph, and supporting documentation for disbursements will be reviewed on an ex post basis by auditors during audits or on any financial inspection visits.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Panama. Loan ____/OC-PN to the Republic of Panama
Support for the Conservation and Management of
Cultural and Natural Heritage

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the support for the conservation and management of cultural and natural heritage program. Such financing will be for the amount of up to US\$45,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2017)

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(Adopted on __ _____ 2017)