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PROJECT CONCEPT NOTE

ON A

PROPOSED GRANT

IN THE AMOUNT OF US\$ 9.59 MILLION

TO THE

REPUBLIC OF PANAMA

FOR A

SUSTAINABLE PRODUCTION SYSTEMS AND CONSERVATION OF BIODIVERSITY
PROJECT (P145621)

Vice President: Hasan A. Tuluy
Country Director: C. Felipe Jaramillo
Sector Manager: Laurent Msellati
Sector Director: Ede Jorge Ijjasz-Vasquez
Task Team Leader: Teresa M. Roncal

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PCN DATA SHEET

Panama

Sustainable Production Systems and Conservation of Biodiversity (*P145621*)

PROJECT CONCEPT NOTE

LATIN AMERICA AND CARIBBEAN

Basic Information			
Project ID	Lending Instrument	EA Category	Team Leader
P145621	Investment Project Financing	B - Partial Assessment	Teresa M. Roncal
Project Implementation Start Date		Project Implementation End Date	
July 1, 2014		July 1, 2019	
Joint IFC			GEF Focal Area
No			Biodiversity
Sector Manager	Sector Director	Country Director	Regional Vice President
Laurent Msellati	Ede Jorge Ijjasz-Vasquez	C. Felipe Jaramillo	Hasan A. Tuluy
Project Financing Data			
<input type="checkbox"/> Loan	<input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Other	
<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee		
For Loans/Credits/Others (US\$M):			
Total Project Cost :	36.97	Total Bank Financing :	9.59
Total Cofinancing :	27.38	Financing Gap :	0.00
Financing Source	Amount		
BORROWER/RECIPIENT	7.63		
Global Environment Facility (GEF)	9.59		
LOCAL BENEFICIARIES	1.00		
LOCAL Municipalities	0.10		

Other ¹	17.71
Total	36.97

Borrower: Republic of Panama

Responsible Agency: Autoridad Nacional del Ambiente (National Environment Authority, ANAM)

Contact: Ivan Valdespino

Title: Manager , CBMAP-II

Telephone No.: (507) 232-9600 Email: iavaldespino@cbmap.org

Institutional Data

Sector Board

Agriculture and Rural Development

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	70	60	40
Public Administration, Law, and Justice	Public administration- Agriculture, fishing and forestry	30	10	10
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Environment and natural resources management	Biodiversity	40
Rural development	Rural non-farm income generation	20
Financial and private sector development	Micro, Small and Medium Enterprise support	20
Social dev/gender/inclusion	Participation and civic	10

¹ Cofinancing: NGOs (0.94 m), Private (2.0 m), IFAD & OPEC (5.7 m)

	engagement	
Public sector governance	Decentralization	10
Total		100
Private Capital Mobilized		
Yes		
Gender Flag		
Does the activity plan to undertake any of the following? Please select Yes or No for each:		
Gender analysis and/or consultation on gender related issues.		
Yes		
Specific actions to address the distinct needs of women and girls, or men and boys, or positive impacts on gender gaps.		
Yes		
Mechanisms to facilitate monitoring and/or evaluation of gender impacts.		
Yes		

Panama

Sustainable Production Systems and Conservation of Biodiversity (P145621)

I. Introduction and Context

A. Country Context

Panama is a country of contrasts, with strong economic growth and progress on poverty reduction, yet high levels of poverty in rural areas, particularly in indigenous *comarcas*.² As the land bridge connecting North and South America, Panama has extraordinary biodiversity³ and the country has established a system of protected areas covering nearly 38 percent of its territory many of which are part of the Mesoamerican Biological Corridor. The rural and indigenous areas adjacent or contiguous to the protected areas with the highest levels of biodiversity also have the highest poverty levels. Annually from 1990-2000, approximately 41,324 hectares of forest cover were lost to non-forest production systems. In the last decade, government efforts for reforestation through different programs, institutions, and projects have been successful in slowing down the deforestation rate to 12,166 hectares of forest cover per year. In 2008, 40 percent of the total surface area of Panama was covered by forests. Despite all these efforts, deforestation continues to be a main threat for Panama's biodiversity, most of it of global importance. This risk is also critical considering that forests are essential for absorption of greenhouse gases that fuel global warming. Among other threats, environmental degradation can lead to poor water quality and pollution and subsequent impacts on human health and treatment costs and affect the Panama Canal economic activities. Other potential issues include unplanned tourism development forested and rural areas, and unregulated hunting activities.

Protected Areas System. Since the 1992 Rio Earth Summit and the adoption of the Convention on Biological Diversity (CBD), Panama has strengthened its environmental management. In 1998, the *Autoridad Nacional del Ambiente* (National Environment Authority, ANAM) was created by Law 41 (General Environmental Law) and Article 66 created the National Protected Areas System (NPAS), which includes all legally established or to be established protected areas (PAs). The number of PAs increased from 43 in 1998 to 105 in 2013, and nearly doubled the protected surface area from 1.9 ha to 3.6 million ha, of which 2.7 million ha are terrestrial land. While protected areas have provided good coverage in terms of national area, government efforts government efforts can be improved in terms of more effective protected areas management, involvement of local people in conservation actions and generation of benefits derived from biodiversity. Attaining financial sustainability of PAs and NPAS constitutes a long-term objective and remains a challenge for Panama.

Many efforts have been made to consolidate the NPAS with tools for better management

² In 2011, poverty in rural areas was 52.1 percent and the population in extreme poverty was 26.4 percent (for both rates, nearly double the poverty levels for the country as a whole). Poverty rates are even more severe in the indigenous areas, where 96.3 percent are poor and 85 percent are extremely poor (government data).

³ Panama ranks 28th in the world for its high level of biodiversity and in proportion to its size, it ranks 10th (*IV Informe Nacional de Panamá ante el Convenio sobre Diversidad Biológica*. ANAM/UNEP/GEF, Panamá, July 2010). Panama ranks 29th based on the GEF Benefits Index for Biodiversity. The country has a wide variety of ecosystems with 7 terrestrial eco-regions, 25 vegetation types, and 12 life zones.

and administration. In November 2000, the guidelines for protected area management were revised and updated. Since 2001, ANAM has evaluated the management effectiveness of 35 PAs, through the GEF Management Effectiveness Tracking Tool (METT). In 2012, ANAM began the process of inventory and monitoring of biodiversity of 14 PAs, through the National System of Information and Monitoring of Biological Diversity (*Sistema Nacional de Información y Monitoreo de la Diversidad Biológica*, SNIMDB) that will provide basic and key information on the biodiversity of global significance protected by these PAs.

Despite progress made, both the financing for the PAs management and the participation of the private sector, civil society and local governments remains a challenge. The Government of Panama has recognized that it is necessary to change the existing paradigm whereby ANAM is the sole agency responsible for protected areas management. It is necessary to identify new mechanisms for the NPAS to achieve financial sustainability, allowing investment in PAs and reinvestment of revenues.

Mesoamerican Biological Corridor. The Isthmus of Panama is one of the key links of the Mesoamerican Biological Corridor (MBC) initiative. The MBC is a comprehensive effort by participating countries to connect natural habitats from Mexico through Central America to Colombia to conserve biological and ecosystems diversity in a manner that fosters sustainable social and economic development. This initiative originated from the concept that the long-term conservation of biodiversity cannot be achieved without rural poverty reduction and stronger economic viability of the countries of the region.

Production Systems and Biodiversity. Pressure from extensive traditional production systems and subsistence farming near the PAs (including the conversion of forest to pasture or crops, overgrazing, and poor cultivation practices leading to land degradation and loss of soil fertility) significantly affects the conservation of biodiversity and decreases the effectiveness of PAs management and sustainability. In fact, one of the main challenges for land use in Panama is to address the increasing demands for agricultural products, while preserving biodiversity and maintaining food security for the rural population.⁴

B. Sectoral and Institutional Context

Rural Poverty and Biodiversity Conservation. In order to meet rural poverty and conservation challenges, ANAM and the Ministry of Agricultural Development (MIDA), in 2004, established a partnership through two now closed Bank-supported projects: Rural Poverty and Natural Resources (Loan 4158-PAN) and Atlantic Mesoamerican Biological Corridor – MBC Project (CBMAP, GEF TF020454). The Rural Poverty project initiated a process of community-driven development, mainly supporting social infrastructure. The CBMAP consolidated the institutional framework for environmental management and supported the integrated management of protected areas. This project was successful in introducing the concept of the MBC in Panamanian society in general and among key

⁴ Harvey, C. A., *et al.* 2008. *Integrating agricultural landscapes with biodiversity conservation in the Mesoamerican hotspot.* *Conservation Biology* 22: 8-15.

stakeholders; norms and regulations were put into place for managing protected areas and conservation of flora and fauna; the NPAS was established with support from CBMAP; management plans for key PAs were developed; a biological monitoring system was designed; the first vegetation cover map was developed; an environmental education plan was developed for local authorities; and rural communities were successfully involved in biodiversity conservation for the first time in Panama. The project helped change the public perception of ANAM from an institution that restricted people's access to natural resources to one that helped provide alternative livelihoods that were more environmentally friendly. A total of 100 subprojects were implemented by communities assisted by local nongovernmental organizations (NGOs); 80 percent of these communities were in remote areas, and 75 percent of the subprojects were carried out by indigenous people.

Rural Productivity and Consolidation of the Atlantic Mesoamerican Biological Corridor. Building on the success of these projects (Implementation Completion Report (ICR) Outcome rating: S), since 2007, ANAM and MIDA have been implementing the Rural Productivity Project (Loan 7439-PA), partially blended with a GEF project for Rural Productivity and Consolidation of the Atlantic Mesoamerican Biological Corridor (CBMAP II, TF056628) (closing in July 2014). As of mid-2012, the Rural Productivity Project has supported 121 productive alliances, working with 4,400 producers to increase productivity while ensuring the sustainable use of natural resources. The GEF project, which worked in 14 protected areas in Panama, has supported mainstreaming of biodiversity⁵, helped bring 36,126 ha of forests and other natural ecosystems of global biodiversity significance in the buffer zones of protected areas under effective conservation and supported 350 environmental investments to develop organizational, administrative and technical capacity in rural, indigenous, and extremely poor communities. Priority actions in protected areas management plans developed under CBMAP were implemented. The project also worked at the local level with municipalities on an environmental education program, the development of municipal environmental plans, and establishment of Consultative Environmental Commissions with the participation of local government and civil society. The CBMAP-II also explored opportunities for self-financing of PAs, and the project has piloted co-management arrangements with communities in selected PAs. The SNIMDB was also supported by the project related to procurement of equipment and field activities for the inventory and monitoring of selected species. This work has been complemented by other donor-supported activities, including collaboration with the Food and Agriculture Organization (FAO) to develop a new map of forest cover to help determine the deforestation rate as of 2012.

Proposed Project. The Government of Panama has requested GEF support in two strategic areas to ensure the sustainability of efforts carried out under the CBMAP projects. The first area would support ANAM's efforts to build wider participation within protected areas management to support long-term financial sustainability. As proposed, the project would target ten protected areas and their buffer zones that were already

⁵ The concept of mainstreaming biodiversity includes investments to strengthen the sustainability of protected area systems with measures to help reduce the negative impacts that productive sectors exert on biodiversity, particularly outside of protected areas.

involved in the CBMAP II, based on criteria described in Section III.A.1. The second area would support communities and small-scale producers to enhance their capacity for greater market access, develop marketing strategies for their biodiversity-friendly products, and promote climate-smart agriculture practices, while improving their quality of life, and reducing the development pressure on the PAs. The project aims to work under a landscape approach (that includes protected areas and their buffer zones within the Mesoamerican Biological Corridor) while improving land-use practices, identification and conservation of ecosystem services, and implementation of climate-smart and biodiversity-friendly production systems.

Currently, ANAM is leading efforts toward the creation of a public-private foundation known as "Foundation of Protected Areas and Biological Corridors." The proposed project will help ANAM seek out and develop different mechanisms to increase the financial sustainability of the PAs, promote more effective use of the information generated by the SNIMDB, and launch a South-South Cooperation among the MBC countries.

C. Relationship to CAS

The proposed project is aligned with the Panama Country Partnership Strategy (CPS), recently updated by a Progress Report (FY2011-2014) dated February 13, 2013 (Report No. 74313-PA). The proposed project responds specifically to Pillar 1: Economic growth that builds on Panama's competitive advantages with actions in four areas, including in agricultural productivity, biodiversity and conservation. The proposed project provides an opportunity to scale up the actions initiated with CBMAP II and support the NPAS to test financial mechanisms to achieve financial sustainability. The proposed project also emphasizes the need to develop efficient production systems adapted to climate change and to promote conservation of biodiversity as a value-added production.

One of the objectives of the World Bank partnership with Panama has been to help decrease gender gaps, improving the lives of poor and indigenous women in particular. The participation of women in environmental subprojects of the on-going GEF CBMAP II Project is 46 percent of the total, exceeding the targeted 40 percent of beneficiaries. The proposed project aims to strengthen further the participation of women. Another important objective is focusing on reducing poverty and inequality within the most vulnerable indigenous communities. Indigenous and poor communities will be direct beneficiaries of the proposed project.

The proposed project will contribute to two of the four strategic objectives of the Biodiversity Focal Area of the GEF: a) improve the sustainability of protected areas systems, and b) mainstream biodiversity in production landscapes/seascapes and sectors. It will also contribute to the achievement of the Aichi Targets of the Convention on Biological Diversity (CBD), specifically: Target 1 on awareness of values of biodiversity; Target 4 on actions taken by governments and stakeholders on sustainable production and consumption; Target 7 on areas under agriculture, aquaculture and forestry managed sustainably; Target 11 on areas of importance for biodiversity and ecosystem services

under effective management; Target 14 on restoration and safeguarding of ecosystems; and, Target 18 on traditional knowledge, innovation and practices of indigenous and local communities. The project also contributes to the Millennium Development Goal for environmental sustainability and responds to the mandates and agreements of the MBC and United Nations Framework Convention on Climate Change.

II. Proposed PDO/Results

A. Proposed Global Environmental Objective(s)

The proposed global environmental objective is to conserve globally significant biodiversity and enhance local livelihoods in Panama through improved management effectiveness of protected areas and mainstreaming biodiversity-friendly management practices in their buffer zones.

B. Key Results

The following key results are expected: (a) increase in number of hectares under biodiversity-friendly production systems in buffer zones of selected PAs, (b) increase in protected areas management score as recorded by the GEF Management Effectiveness Tracking Tool (METT), and (c) decrease in funding gap for management of protected area systems as recorded by protected area financing scorecards. The specific indicators, baselines, and targets will be defined during project preparation.

The project will seek to measure a contribution to climate change directly or indirectly by reduction, avoidance or displacement of emissions through the different practices. It will continue to measure vegetation cover and seek to measure indicator species of conservation interest that were outcome indicators in CBMAP-II.

III. Project Context

A. Concept

1. Description

The proposed project will be implemented in approximately 10 selected PAs including their buffer zones geographically located in the central-eastern part of the country within the Panamanian MBC. The PAs will be selected based on the following criteria that will be further refined during preparation: (a) relative value in protecting biodiversity of national and global importance, (b) density of indigenous and non-indigenous populations in poverty/extreme poverty in their buffer zones, (c) production processes incubated by the CBMAP II, which require additional support to become sustainable green businesses, (d) sufficient organizational capacity among producers that will help streamline the project implementation, and (e) level of market integration or marginalization. The area proposed is expected to cover between 500,000 and 700,000 hectares (approximately 20-25 percent of the total land area protected), and be stretched over six provinces, two *comarcas*⁶ (i.e.,

⁶ A *Comarca* is an indigenous territory created by law under the Special Law for the Creation of *Comarcas* and the Organic Letter of the Political Constitution of Panama. *Comarcas* are governed by General, Regional and Local Congresses, based on traditional authorities (caciques).

Ngabe-Bugle and Kuna) and the Naso-Teribe Indigenous Territory in part of the Changuinola District, Bocas del Toro Province.

The project would be organized into four components:

Component 1 - Participatory Management of Protected Areas (US\$3.6 million estimated for GEF financing)-- would support ANAM's efforts to strengthen the management of the selected PAs, promote partnerships with local government, communities, NGOS, and the private sector to achieve financial sustainability of PAs. It would test alternative financial mechanisms, such as trust funds, cost-sharing arrangements, co-management arrangements with local government and communities, and administration contracts. . The component would continue to support some activities carried out under CBMAP II, particularly for implementation of municipal environmental plans and for the establishment of the NPAS Trust Fund. A contribution of at least US\$1.0 million to the endowment of this trust fund will be financed, and some expenses for the operational manual and investment policy of the fund.

Component 2 - Biodiversity and Sustainable Productive Landscapes (US\$3.3 million estimated for GEF financing)-- would focus on activities to mainstream biodiversity and sustainable production landscapes in production areas in the buffer zones of selected PAs. The project will support producer groups or producer associations that live in the buffer zones, and that have implemented successful subprojects with financing of CBMAP II, to scale up their operations and implement biodiversity-friendly production and management practices with a focus on gaining or increasing access to markets for their products so that biodiversity-friendly practices become economically sustainable. Subprojects to be developed under this component may include adoption of practices for biodiversity-friendly production, such as use of organic compost and living fences, use of native species, as well as exploring ways of including adaptation to climate change elements associated with the diversification of products, soil erosion control, and resilience to climatic pressures. A detailed list of potential activities will be developed during preparation. Training and technical assistance will be provided to producers for implementation of subprojects and improvement of their technical and business management skills.

Component 3 - Knowledge Management and Communication (US\$1.8 million estimated for GEF financing)— would promote awareness and offer training to key project stakeholders of both genders (e.g., producers, indigenous peoples, local government, and private sector) on good practices and knowledge management at local and regional levels to support biodiversity mainstreaming and promote the consumption of bio-labeled goods. This component includes the development of a strong communication and outreach strategy for dissemination of information, and support to capacity-building activities to both technical assistance providers and producers. This component will support strengthening the capacity of the recently established economic unit in ANAM to lead the authority's efforts to carry out environmental economic analysis that could demonstrate clearly the economic value of biodiversity to decision-makers in Panama. This will support ANAM as it seeks to enhance the financial sustainability of Panama's protected area system. A subcomponent for promoting partnerships and South-

South cooperation is also included in this component. This will allow ANAM to work together with the National Commission for the Knowledge and Use of Biodiversity, CONABIO, in Mexico in the implementation of a regional program for training and technology transfer related to sustainable production, and the development of biodiversity standards and/or market labels, and certification. In particular, this project will seek to learn from the progress being made under the GEF-financed, World Bank implemented “Sustainable Production Systems and Biodiversity Project” in Mexico.

Component 4 - Project Management and Monitoring and Evaluation (US\$0.9 million estimated for GEF financing)- would support the technical and administrative coordination, supervision, monitoring, and evaluation of the project.

The project implementation period will be five years. The Recipient will be the Republic of Panama represented by the Ministry of Economy and Finance (MEF), and the implementing agency will be ANAM, in particular the Department of Protected Areas and Wildlife (DAPVS), in charge of the NPAS.

2. Key Risks and Issues

Stakeholder Participation. This project will involve numerous stakeholders, including local residents in the project areas, protected areas and project staff, small-scale producers and producer organizations, indigenous peoples, municipalities, and the private sector. Coordination of all these stakeholders to support project activities is complex and constitutes a risk. As part of preparation, a Social Assessment and an Indigenous Peoples Plan (IPP) will be prepared to identify and consult with the main stakeholders and develop a strategy to promote informed participation in the project. This plan will identify the diverse interests of these groups and provide recommendations to ensure that the proposed services are accessible to potential beneficiaries.

B. Economic Analysis

1. Briefly describe the Project's development impact in terms of expected benefits and costs

The expected economic benefits will be derived from improving market access of biodiversity-friendly production systems in PAs and their buffer zones. Primary beneficiaries of the project are expected to benefit in terms of income gains due to value addition through sustainable production and sale of biodiversity-friendly goods and services along with the broader social and environmental benefits of adopting the sustainable production systems. In addition, during preparation, an impact assessment framework will be developed, but will first be used to guide ex-ante impact assessment, and afterwards will allow rigorous ex-post impact.

2. Rationale for public sector provision/financing, if applicable

Biodiversity is a public good with invaluable ecosystem functions and services, such as protection of watersheds, maintaining ecological stability and resilience and

safeguarding provision of food and water and other materials, recreation and productive activities, and scientific benefits. GEF financing for this project to be implemented in important and critical natural habitats within high priority ecosystems for Panama will provide a significant contribution to maintaining biodiversity, ensuring the livelihoods of people in the surrounding areas, and creating a positive influence on the overall integrity and effectiveness of the Mesoamerican Biological Corridor across the Central America isthmus.

3. Value added of Bank's support

As an implementing agency of the GEF, for the past 15 years, the Bank has played an important role in establishing the basis for biodiversity conservation and protected area management in Panama. This project will build on the lessons learned and continue the dialogue established by two previous GEF projects. The effective management of protected areas continues to be a challenge due to scarce resources and underfunding, that do not allow investments in infrastructure, hiring staff, and reasonable operating costs. The Bank will draw on its considerable expertise in enhancing the financial sustainability of PAs systems to achieve measurable progress in enhancing the financial sustainability of NPAS in Panama. The proposed project will also scale up successful biodiversity-friendly practices by producers involved in CBMAP II to transition to greater market access and improve their business and marketing skills, and attain economic sustainability. GEF funding for these activities is essential due to the limited access to financial resources that these producers and indigenous communities have in Panama.

Apart from the financing, ANAM values (a) the Bank's implementation support through both its technical and fiduciary teams, which have contributed to strengthening its own implementation capacity; and (b) the Bank's international experience and leadership in the environmental area, particularly for land use and sustainability, production systems and productive alliances, environmental services, long-term financial mechanisms and strategic adaptation responses to the potential impacts of climate change in new investments.

4. Brief description of methodology/scope and next steps

The financial returns from mainstreaming biodiversity into agricultural landscapes are difficult to measure as investments are demand driven and diversified across productive practices. There are important positive co-benefits of such investments that accrue to the environmental services that improve watershed management, enhance carbon sequestration and protect biodiversity. A cost-effectiveness analysis for the proposed project activities will be conducted during preparation and will help to identify opportunities for positive financial incentives for biodiversity mainstreaming.

C. Implementing Agency Assessment

ANAM is currently implementing the CBMAP-II through a Project Implementing Unit (PIU) in accordance with the World Bank's financial management, procurement, and

safeguard policies. The PIU has qualified staff that were selected competitively to administer the project funds and to support the project implementation. A financial management and monitoring and evaluation system is in place, and will be improved for the proposed project. Technical leadership is provided by the DAPVS. The capacity of ANAM will be further evaluated during project preparation, and measures included in the project to strengthen areas deemed necessary.

D. Project Stakeholder Assessment

The project will have the following stakeholders: (a) smallholder producers and producer groups, and producers associations that will implement environmental subprojects in the targeted areas, and will benefit from training and technical assistance; (b) indigenous communities that will be key actors since most *comarcas* and indigenous peoples' land overlap with PAs with rich natural resources, (c) municipal authorities and technical staff will benefit from capacity building activities and support to the implementation of municipal environmental plans; (d) civil society and private technical service providers; (e) private sector that could become partners with producers for marketing purposes; and (f) other government agencies, for example the Ministry of Agricultural Development.

Stakeholders will be consulted during the preparation of the Social Assessment (SA) and Indigenous Peoples Plan (IPP). The IPP will specify an action plan to ensure that indigenous community members of both genders are properly informed and consulted, and that their participation is encouraged and promoted under the umbrella of the project. This action plan will specify clear mechanisms for women and youth participation. The proposed project will benefit from the communication strategy being implemented under the current CBMAP-II, which disseminates relevant information to all involved stakeholders and decision-makers.

IV. Overall Risk Ratings

A. Risk Rating Summary

Risk	Rating	Risk	Rating
Project Stakeholder Risks		Project Risks	
- Stakeholder Risk	Moderate	- Design	Moderate
Operating Environment Risks		- Social and Environmental	Moderate
- Country	Low	- Program and Donor	Low
- Sector and Multi-Sector	Low	- Delivery Monitoring and Sustainability	Moderate
Implementing Agency (IA) Risks (including Fiduciary Risks)		- Other (Optional)	
- Capacity	Moderate	- Other (Optional)	
- Governance	Moderate		
- Fraud and Corruption	Moderate		

Overall Preparation Risk	Moderate	Overall Implementation Risk	Moderate
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B. Overall Risk Rating Explanation

Overall project preparation risk is rated as Moderate. Preparation is being conducted in the framework of implementation support to the ongoing CBMAP-II. ANAM has shown a strong commitment to continue working with the MBC and support new activities that will scale-up CBMAP-II and strengthen the NPAS. However, coordination of many stakeholders is always complex and risky.

Overall project implementation risk is rated as Moderate. There are some risks during implementation: (a) the change of government administration in 2014 following national elections; (b) tendency for high project staff turnover; (c) weak capacity of producers and indigenous communities for implementation of subprojects, (d) incipient market for biodiversity-friendly products, and (e) weak capacity of municipalities and ANAM's regional offices to support implementation.

Annex 1-Operational Risk Assessment Framework (ORAF)

Panama: Sustainable Production Systems and Conservation of Biodiversity (P145621)

Stage: PCN

1. Project Stakeholder Risks																	
1.1. Stakeholder Risk	Rating	Moderate															
<p>Description:</p> <p><i>Changes in local authorities</i> after 2014 Presidential election may weaken support for the Project and affect implementation of municipal environmental plans.</p> <p><i>Support from indigenous communities:</i> Although CBMAP-II has implemented project activities with broad support from indigenous communities, the project could find it difficult to meet some indigenous communities' expectations, and as a result, they may not agree to provide support and not participate in the project.</p> <p><i>Lack of interest in participation by producers:</i> Producers may not participate in the project because of a lack of information about the objectives and procedures, they do not see the economic benefits of mainstreaming biodiversity or because they are reluctant regarding the sustainability of the activities and their benefits in the future.</p>	<p>Risk Management:</p> <p><i>Changes in local authorities.</i> Municipal environmental plans were developed by the on-going project in a participatory way. ANAM will sign implementation agreements with municipalities for the activities that will be financed by the project.</p> <p><i>Support from indigenous communities:</i> Under CBMAP-II agreements with indigenous communities were signed that allowed the project to implement activities in indigenous territories and <i>comarcas</i> and ensure their participation in the project. These agreements will be renewed for the proposed project. Also, to ensure adequate consultation, an IPP will be prepared, and it will be complemented by a Communication Strategy.</p> <p><i>Lack of interest in participation by producers:</i> In order to mitigate this potential risk, the project will implement strong outreach, consultation, dissemination, and capacity-building programs stating clear conditions and requirements for participation of producers in the project.</p>																
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Resp:</th> <th style="text-align: left;">Stage:</th> <th style="text-align: left;">Recurrent:</th> <th style="text-align: left;">Due Date:</th> <th style="text-align: left;">Frequency:</th> <th style="text-align: left;">Status:</th> </tr> </thead> <tbody> <tr> <td>Client</td> <td>Both</td> <td style="text-align: center;"><input type="checkbox"/></td> <td></td> <td>Yearly</td> <td>In progress</td> </tr> </tbody> </table>	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:	Client	Both	<input type="checkbox"/>		Yearly	In progress				
Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:												
Client	Both	<input type="checkbox"/>		Yearly	In progress												
2. Operating Environment Risks (Note for information: this section is not disclosed at Negotiation and Board presentation stages)																	
2.1. Country (Note for information: this section is not disclosed at Negotiation and Board presentation stages)	Rating	Low															
<p>Description:</p> <p><i>Political and Institutional Risk.</i> The President's <i>Cambio Democrático</i> party primary elections will take place in May 2013, and opposition parties' primaries, in March 2013. In February 2013, three</p>	<p>Risk Management:</p> <p>The Government continues to carry out its ambitious Strategic Plan, and the massive infrastructure and social program which the Country Partnership Strategy supports. The proposed changes to the electoral system are unlikely to be passed, since they would require a referendum. The Bank will continue policy dialogue with the main parties and monitor the situation.</p>																

<p>Ministers announced they will run for President. The Social Development Minister will run for Mayor. Given the resignations of the Ministers, there may be staff turnover at the Ministries.</p> <p>Major groups have opposed Government's attempts to pass a constitutional reform of a two-round voting system for the next presidential elections (2014). The President has been criticized for his autocratic government style.</p> <p>National budget allocations in 2013 were focused on large infrastructure projects which the Government wants to finish before the end of its term in May 2014, with particular emphasis on the Panama subway. Allocations to some multilaterally-financed projects have been lower-than-expected, which may lead to implementation delays.</p> <p>Macroeconomic Risk. Panama's economic growth has been one of the fastest in Latin America. It quickly rebounded from the 2008 global economic crisis, and GDP grew by 7.6 percent in 2010, 10.6 percent in 2011, and is estimated at 10.5 percent for 2012. Fiscal performance was also impressive, with the budget deficit maintained below 2.1 percent in 2012. Fiscal risks are mitigated by the Fiscal Responsibility Law. Tax reforms introduced by the current administration have increased tax collections.</p> <p>Fiduciary Management. Panama has modernized its procurement system through launching <i>PanamaCompra</i>, an e-procurement platform for Government purchases and online bidding, and the application of Framework Agreements, resulting in large savings in public purchases through common goods contracts. Although Panama's financial management and budgetary systems have made significant progress in terms of comprehensiveness and transparency, substantial challenges lie ahead in increasing effectiveness during budget preparation and efficiency in budget execution. An effective, comprehensive monitoring and evaluation system is required for planning and budgetary decisions,</p>	<p>Potential slow-down of the implementation of the Bank-financed projects due to the start of the pre-election campaign is a moderate risk. Country Portfolio Performance Reviews (CPPRs) and regular mini-CPPRs will take place in FY13-FY14 to ensure a smooth portfolio implementation during the pre-electoral period. The Bank will prepare sector Policy Notes to establish a broad dialogue with the main parties (e.g., on skills development, etc.) and will closely monitor the country environment. The Bank will work with the sector ministries and the Ministry of Economy and Finance to secure extraordinary budget allocations during 2013, where necessary.</p> <p>The overall macroeconomic risk is low. The main economic risks derive from the fiscal stance and the country's vulnerability to external shocks. Some risk of overheating has stemmed from the combination of expansionary fiscal policy, high growth rates, and expansionary US monetary policy to which Panama is tied through its currency peg. Yet this risk is low as headline inflation is declining and the global environment is conducive to a smooth transition to trend growth in the medium term. The risk that fiscal balances may deteriorate would be mitigated by flexibility in the timing of capital expenditure, current timely and on-budget completion of major public infrastructure projects and steadily increasing tax revenues.</p> <p>Fiduciary risk is low. The Bank is supporting the government reform efforts through the Enhanced Public Sector Technical Assistance Loan in strengthening budget execution, accounting and control with the implementation of an Integrated Financial Management Information System and Government Resource Planning System at all central and decentralized government agencies. This new system will be linked to the PanamaCompra portal.</p>
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<p>strengthening accountability, and supporting results-based management.</p> <p>Natural Disasters. Panama’s vulnerability to the impacts of natural hazards (e.g., heavy rainfalls causing floods), is increasing. Although the country has taken important steps toward implementing a sound disaster risk management framework, inter-institutional coordination needs to be further improved.</p>	<p>The Bank is supporting the country in its disaster preparedness and risk management work through an ongoing CAT-DDO operation. To mitigate the risk of policy uncertainty, the Bank will work closely with the client to evaluate the impact of policy changes and facilitate broad country dialogue on risks. The Disaster Risk Management dialogue promoted by the CAT-DDO is leveraging other disaster risk reduction activities and interventions, such as promoting wide participation and ownership by local stakeholders and vulnerable groups.</p>												
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 10%;">Resp:</th> <th style="width: 15%;">Stage:</th> <th style="width: 15%;">Recurrent:</th> <th style="width: 15%;">Due Date:</th> <th style="width: 15%;">Frequency:</th> <th style="width: 15%;">Status:</th> </tr> <tr> <td>Client</td> <td>Implementati on</td> <td style="text-align: center;"><input type="checkbox"/></td> <td></td> <td></td> <td>In progress</td> </tr> </table>	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:	Client	Implementati on	<input type="checkbox"/>			In progress
Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:								
Client	Implementati on	<input type="checkbox"/>			In progress								

<p>2.2. Sector and Multi-Sector (Note for information: this section is not disclosed at Negotiation and Board presentation stages)</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 15%;">Rating</th> <td style="width: 85%;">Low</td> </tr> </table>	Rating	Low
Rating	Low		

<p>Description:</p> <p><i>Sectoral coordination.</i> The project will need to communicate and coordinate with several units and regional offices within ANAM, local government, and private sector for the establishment of Consultative Environmental Commissions (CCAs), and Municipal Environmental Management Units (UAMs). Good communication with all of these organizations is a key element for finding synergies that lead to the success of the project.</p>	<p>Risk Management:</p> <p>This risk is low since ANAM has been working with its regional offices and municipalities for the implementation of the on-going CBMAP II project. However it is important that all the institutions involved have a clear understanding of their roles (from the beginning of the project) and the communication channels to facilitate effective coordination mechanisms. Even though, ANAM has worked with most of the mentioned agencies, its relationship with the private sector is new; in this case care has to be taken to find the appropriate strategy.</p>												
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 10%;">Resp:</th> <th style="width: 15%;">Stage:</th> <th style="width: 15%;">Recurrent:</th> <th style="width: 15%;">Due Date:</th> <th style="width: 15%;">Frequency:</th> <th style="width: 15%;">Status:</th> </tr> <tr> <td>Client</td> <td>Both</td> <td style="text-align: center;"><input type="checkbox"/></td> <td></td> <td></td> <td>In progress</td> </tr> </table>	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:	Client	Both	<input type="checkbox"/>			In progress
Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:								
Client	Both	<input type="checkbox"/>			In progress								

3. Implementing Agency Risks (including fiduciary)

<p>3.1. Capacity</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 15%;">Rating</th> <td style="width: 85%;">Moderate</td> </tr> </table>	Rating	Moderate
Rating	Moderate		

<p>Description:</p> <p><i>ANAM is not an agency specialized in market-related issues:</i> Since the project aims to help producers to enter the market, some of the activities may require the development of business plans and/or market studies to achieve the objective. ANAM is an organization focused on environmental and biodiversity issues that has limited experience in business-related activities.</p> <p><i>Poor communication between central and regional offices:</i> Subprojects will be located in different districts corresponding to different regional</p>	<p>Risk Management:</p> <p><i>ANAM is not specialized in market-related issues:</i> To mitigate this risk the PIU will hire a marketing specialist to help producers to develop a business plan and to identify potential entries to the market; identify consumer demands and to develop a marketing plan.</p> <p><i>Poor communication between central and regional offices:</i> To mitigate this risk, the project will organize workshops for ANAM staff to clarify the role of the regional offices in project implementation, and will ensure that they have the appropriate means to communicate effectively with the central office.</p>
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<p>ANAM offices. This situation could create difficulties in the implementation and administration of subprojects if there is a lack of communication and organization between central and regional ANAM offices.</p> <p><i>Staff turn-over:</i> According to the CPS, there is a shortage of qualified labor in Panama in both in the public and private sector. Based on the experience in the implementation of CBMAP II, high staff turn-over may affect the efficient implementation of the project.</p>	<p><i>Staff turn-over:</i> As a short-term solution to attract qualified professionals, the government has changed its immigration law making it easier for foreigners to reside in Panama and obtain work permits. Also, during preparation the team will discuss with ANAM the possibility of increasing current consultant fees to make job offers more competitive.</p>					
	Resp: Client	Stage: Both	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status: In progress
3.2. Governance	Rating	Moderate				
<p>Description:</p> <p>The multiplicity of organizations involved in the project with different operational capacities may reduce the efficiency of the processes. Producers may not have experience in management procedures (procurement, fiduciary, etc).</p>	<p>Risk Management:</p> <p>ANAM has previous experience as an implementing agency with World Bank/GEF projects, and has shown ownership and commitment to CBMAP II. For new producer groups, indigenous communities, municipalities, private institutions, and project staff, the project will provide training on good practices in financial and procurement management. Special focus will be given to Bank procedures. Producers (beneficiaries) may need additional basic managerial training for their own associations and to manage the resources coming from the project.</p>					
	Resp: Client	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status: Not yet due
<p>Fraud and Corruption (sub-category of Governance risk) (Note for information: this section is not disclosed at Negotiation and Board presentation stages, except the risk Management measures which will be merged with those on 3.2 Governance)</p>	Rating	Moderate				
<p>Description:</p> <p><i>Call for Proposals:</i> The project seeks the participation of many producers with a public open call for proposals. If the process of selection and the conditions for applying are not clear, a situation of</p>	<p>Risk Management:</p> <p><i>Call for Proposals:</i> To mitigate this risk, the project will define a clear objective and selection criteria for eligible beneficiaries, and for selection and evaluation of proposals, that will be disseminated as part of the communication strategy, and will be included in the Project's Operation Manual.</p>					
	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:

rent-seeking may happen.	Client	Implementati on	<input type="checkbox"/>			Not yet due
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4. Project Risks

4.1. Design	Rating	Moderate				
<p>Description:</p> <p><i>Difficulties in organizing productive associations:</i> Different levels of organization of potential producers and their broad spatial distribution may complicate the creation and strengthening of associations.</p> <p><i>Biodiversity-friendly production is not attractive for producers.</i> If producers were not interested, the component on biodiversity-production systems could not prosper.</p> <p><i>Weak technical capacity of municipalities:</i> Municipalities have relatively weak capacity for handling environmental issues.</p> <p><i>Local offices lacking capacity to address beneficiaries' needs.</i></p>	<p>Risk Management:</p> <p><i>Difficulties in organizing productive associations.</i> The project will work with producer groups and associations that were legally constituted under the current CBMAP II project.</p> <p><i>Biodiversity-friendly production is not attractive for producers.</i> The on-going CBMAP II is carrying out a market study to identify products that have a market demand, and will share this information with interested producer associations that are already involved in CBMAP II and that are interested in scaling up their operations.</p> <p><i>Weak technical capacity of municipalities:</i> The project will support municipalities that have already developed a municipal environmental plan under CBMAP II. Under the proposed project, technical assistance will be provided for strengthening municipalities' capacity.</p> <p><i>Local offices lacking capacity to cover beneficiaries' needs properly:</i> The project will ensure that local offices have the appropriate personnel and instruments to respond to beneficiaries' needs. All the offices will have a system for collecting questions and complaints from beneficiaries that will be actively updated.</p>					
	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:
	Client	Implementati on	<input type="checkbox"/>			Not yet due
4.2. Social and Environmental	Rating	Low				
<p>Description:</p> <p><i>Social:</i> The project is expected to include associations, groups and/or individual producers as well as the indigenous peoples. This complexity of beneficiaries requires the implementation of diverse mechanisms to adjust services to meet the characteristics of different local contexts and type of producers.</p> <p><i>Environmental:</i> The overall</p>	<p>Risk Management:</p> <p><i>Social:</i> To mitigate this risk, a Social Assessment and an Indigenous Peoples Plan (IPP) will be prepared as part of the project to evaluate the project's potential impact on indigenous peoples. Free, prior and informed consultation will take place to establish community support. The project will also develop a communication strategy that considers local situations and different beneficiaries (for example, indigenous peoples) and will plan activities accordingly (different languages, different dissemination methods). The project should have a clear understanding of the possible challenges for the implementation under different local contexts by having discussions with local stakeholders early in the design of the project.</p> <p><i>Environmental:</i> An Environmental Management Framework will be developed to evaluate the potential environmental impacts and will include measures to avoid,</p>					

environmental impacts from the implementation of subprojects are expected to be largely positive. Any activities that would result in adverse impacts on natural habitats and forested areas will be avoided.	minimize or mitigate any adverse impacts as needed. The project won't support activities that could have a negative environmental impact or that would affect local biodiversity. Subprojects have to comply with environmental safeguards of the Bank and country environmental regulations; they will be reviewed by ANAM before receiving approval.					
	Resp: Client and Bank	Stage: Both	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status: In progress

4.3. Program and Donor **Rating** **Low**

Description: <i>Donor:</i> The only donor of the project is GEF, which has been engaged with ANAM for the past 15 years with two previous projects.	Risk Management: Not relevant					
	Resp:	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:

4.4. Delivery Monitoring and Sustainability **Rating** **Moderate**

Description: <i>Difficulty in designing and monitoring biodiversity:</i> direct measurement of biodiversity conservation as a result of project activities is costly and time consuming; beginning with information to have a proper baseline that leads to a solid monitoring and impact evaluation process. The development of a monitoring system for biodiversity that is sustainable in the future is a challenge.	Risk Management: ANAM has been working on the improvement of a monitoring system for biodiversity in previous projects and is implementing a strategy that includes the development of software that will contain consolidated biodiversity information from the country including information generated by other institutions such as universities and research institutes. For the monitoring of the impact of this project, ANAM with the advice of World Bank specialists, is discussing the most efficient and effective indicators to monitor biodiversity given the project budget, the time and the information available.					
	Resp: Client	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status: In progress

4.5. Other (Optional) **Rating**

Description:	Risk Management:					
	Resp: Client	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status: In progress

4.6. Other (Optional) **Rating**

Description:	Risk Management:					
	Resp:	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:

5. Project Team Proposed Rating Before Review

Preparation Risk Moderate	Implementation Moderate
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Rating:	Risk Rating:
Comments: Preparation is being conducted in the framework of implementation support to the ongoing CBMAP-II. ANAM has shown a strong commitment to continue working with the MBC and support new activities that will scale-up CBMAP-II and strengthen the NPAS.	Comments: There are some risks during implementation: (a) the change of government administration in 2014; (b) tendency for high project staff turnover; (c) weak capacity of producers and indigenous communities for implementation of subprojects, (d) incipient market for biodiversity-friendly products, and (e) and weak capacity of municipalities and ANAM's regional offices to support implementation.
6. Overall Risk	
Preparation Risk Rating: Moderate	Implementation Risk Rating: Moderate
Comments:	Comments:
Nondisclosable Information for Management Attention (Optional) (Note for information: this section is not disclosed at Negotiation and Board presentation stages)	
Comments:	

Annex 2
Preparation Schedule and Resources

Preparation Schedule				
Milestone	Basic	Forecast	Actual	
AIS Release			13-May-2013	
Concept Review	31-Jul-2013	19-Aug-2013	19-Aug-2013	
Auth Appr/Negs (in principle)	04-Dec-2013			
Bank Approval	28-Feb-2014			
Sector Unit Estimate of Resources Required from Preparation through Approval				
Source of Funds	Preparation Expenses to Date (USD)	Estimate of Resource Requirements (USD)		
		Fixed	Variable	
Bank Budget	250,000			
Trust Funds				
Team Composition				
Bank Staff				
Name	Title	Specialization	Unit	UPI
Teresa M. Roncal	Operations Analyst	Team Leader	LCSAR	15377
Evelyn Villatoro	Senior Procurement Specialist	Procurement		
Fabienne Mroczka	Financial Management Specialist	Financial Management	LCSFM	
Mary Lisbeth Gonzalez	Senior Social Development Specialist	Social Development	LCSSO	
Abdelaziz Lagnaoui	Senior Environmental Specialist	Environment	LCSEN	
Svetlana Edmeades	Senior Agricultural Economist	Agriculture	LCSAR	
Diana Rodríguez-Paredes	JPA	Biologist	LCSAR	
Patricia Hoyes	Senior Finance Officer	Finance	CTRLN	
Rocio Malpica	Senior Counsel	Legal	LEGLE	
Non Bank Staff				
Name	Title	Office Phone	City	
Alberto Yanosky	Biodiversity consultant		Asunción	
Otoniel Campos	M&E consultant		Tegucigalpa	
Ricardo Castellon	Social Issues consultant		Managua	

Additional Information (Optional)

