

## NATIONAL ENVIRONMENTAL PROGRAM (PAN)

(PN-0122)

### EXECUTIVE SUMMARY

<b>Borrower and guarantor:</b>	Republic of Panama	
<b>Executing agency:</b>	National Environmental Authority [Autoridad Nacional del Ambiente] (ANAM)	
<b>Amount and source:</b>	IDB: (OC)	US\$15.8 million
	Local:	US\$6.8 million
	Total:	US\$22.6 million
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Grace period:	4-1/2 years
	Disbursement period:	4-1/2 years for the resources allocated for the final audit and evaluation; 4 years for the other resources
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars from the Single Currency Facility
<b>Objectives:</b>	<p>To develop the capabilities of ANAM and of the Interagency Environmental System, strengthening priority aspects of environmental management and implementing a financing mechanism to support community environmental initiatives.</p> <p>The specific objectives of the program are to: (a) support activities for restructuring and institutional strengthening and improve environmental management capabilities, making it possible to implement the Law on the Environment and begin a process to decentralize management; (b) develop and implement policies, regulations and basic environmental management tools for the implementation of Law 41; and (c) support the financing of environmental improvement initiatives that make it possible to address community priorities, prepare studies, and formulate and execute environmental investment projects in areas and on issues not covered by existing resources.</p>	

- Description:** The first stage of the program aims to address those activities considered of priority importance within the process of implementing Law 41 and the national strategy for the environment. The main goals proposed for the program are:
- a. to provide ANAM the technical, legal and financial capacity to discharge its new mandate and establish an interagency environmental system with sufficient capacity to implement Law 41, including strengthening of the 10 priority Sectoral Environmental Units (UASs);
  - b. decentralize environmental management and implement through pilot projects in one province, three municipalities and one *comarca* [indigenous district];
  - c. formulate 19 implementing regulations for Law 41;
  - d. develop environmental management tools, such as the following:
    - a uniform set of environmental impact assessment (EIA) regulations at the national level, including the corresponding manual of procedures;
    - an environmental land-use plan;
    - environmental quality standards (6), setting limits in critical areas (water, air, solid waste);
    - formal and nonformal national environmental education plan, and plan for creating the human resource capacity to keep up with the management process at the national, regional and local levels;
    - environmental supervision and inspection capacity, including the mechanisms and incentives for clean production;
    - National Environmental Information System (SINIA) established at ANAM and within the Interagency Environmental System;
    - Environmental diagnosis of the industrial productive sector, including the regulations on proactive environmental management tools.
  - e. environmental investments made and executed by the communities involving environmental areas and issues to which the latter have attached priority.

To achieve the proposed objectives, the program has been structured in three components:

**Component I. Strengthening of ANAM, the Interagency Environmental System, and decentralized management (US\$8 million)**

The activities under this component are structured as four specific projects: (a) **institutional strengthening of ANAM**, including its 12 regional offices, based on a modern information and communication system, along with equipment therefor; (b) **strengthening the interagency system and the Network of Sectoral Environmental Units**, including the establishment and equipping of the Network of Sectoral Environmental Units, the creation of an information system for environmental management easily accessible to all levels, both public and private, and the preparation of an environmental land-use plan; (c) **strengthening of decentralized environmental management**, in order to lay the foundation for a process of decentralization in five local governments as pilot projects; and (d) **environmental education and public awareness building**, including formal and nonformal environmental education campaigns.

**Component II. Development of environmental management policies, regulations and instruments (US\$7.6 million)**

This component has been structured as five specific projects: (a) **adjustment and implementation of sectoral and general environmental policies and regulations**, including the preparation and entry into force of policies and regulations designated as priorities for this first stage, as well as studies for preparing specific policies and plans of action, valuation of environmental services, and design of financing mechanisms that provide for sustainable management; (b) **mechanisms for the environmental assessment of projects**, including implementing an evaluation, audit and environmental supervision and inspection system; (c) **mechanisms for pollution monitoring, control and inspection**, including implementing policies by sector, along with clear mechanisms for penalties and incentives; (d) **formulation of policies and standards for environmental quality and emissions** for critical priority areas, such as water, air and solid waste; and (e) **promotion of clean development**, in order to promote the adoption of clean technologies and of environmental management and mitigation plans (PAMAS) in the industrial productive sector.

**Component III. Environmental management initiatives (US\$1.75 million)**

This will contribute to the execution of various community-generated

environmental improvement initiatives with high social impact, through: (a) allocation of preinvestment resources to energize and encourage access to existing sources of financing for investments; and (b) investments to address local needs related to environmental areas and issues not covered by existing resources.

The preinvestment resources (US\$250,000) will act as an energizing mechanism (16 initiatives averaging US\$15,000 each) to support the preparation of a greater number of environmental projects that could be financed with resources from the program or from other funds available in the country. Investment resources (US\$1.5 million) will be directed so as not to compete with other existing financing sources and will be targeted to very specific environmental activities (30 projects averaging US\$50,000). The resources would be nonreimbursable and in both cases the beneficiaries of the projects would contribute a minimum of 10% for preinvestment projects, and 20% of the total cost in the case of environmental investments. Local communities, nongovernmental organizations (NGOs) and municipalities would be the primary beneficiaries of these resources, which would be geared to demand.

The resources will be targeted to environmental initiatives for areas identified as critical, such as: (a) environmental quality (solid waste management, waste water, construction and/or improvement of municipal green areas and parks, cleanup of watercourses, mangroves and beaches); (b) natural resources (rehabilitation and protection of water sources for rural water supply systems, ecotourism projects, conservation and sustainable use of natural scenic areas, maintenance of wetlands and reefs, mangroves, soil recovery and sustainable management, projects for community or private management of protected areas); and (c) prevention of natural disasters.

The environmental management initiatives will be governed by Operating Regulations, which will include the criteria needed for the allocation of resources, both for preinvestment and for investment. A portion of the resources of this component will be used to support the strengthening of environmental management with initiatives identified in the strategic plans of the pilot projects for decentralization.

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

The Bank's country strategy is governed by four general guidelines: (a) expanding the benefits of social policy; (b) promoting sustainable development; (c) fostering continued growth; and (d) strengthening governance. This operation is consistent with the above strategy, given that it contributes to the improved use of natural resources, furthers the modernization of the regulatory and institutional framework in which productive activities are implemented and promotes sustainable development.

**Environmental and social review:**

The operation would have a positive environmental impact, since it is specifically designed to support the country in implementing the General Law on the Environment and the national environmental strategy, through the strengthening of ANAM and of the Interagency Environmental Management System. The investments that would be financed as environmental management incentives would be selected on the basis of their positive environmental contribution and, if appropriate, would have a plan to mitigate secondary negative effects (paragraphs 4.14 and 4.15).

**Benefits:**

As a direct result of the program, the country will derive the following benefits: (a) it will have basic management tools needed to address the enormous challenges of economic growth in the context of globalization, particularly when the country assumes the management of the Panama Canal and the new areas and infrastructure that are reverting; (b) greater efficiency in public management will be achieved, moving from a bureaucratic and obsolete form of natural resource management to one that is modern and dynamic; (c) functioning environmental information systems will be in place that support decision making, both public and private; (d) the civil population will become more educated and environmentally aware; and (e) it will be demonstrated that, at the community level and with small investments, it is possible to have significant social and environmental effects that will give more credibility to management.

The great benefits of the proposed operation have to do with solving the problems presented, which affect, above all, the health and quality of life of the population and compromise natural resources for future generations. As a result of implementing the program, the management tools will, in the future, help control, reverse and mitigate the damage associated with water and air pollution, municipal solid waste, toxic waste, degradation of soils, forests, loss of biodiversity and of coastal marine resources, etc.

From another perspective, an additional benefit of the program is the more efficient use of public and private investment. Environmental policy will allow for all economic activity to internalize the environmental variable, and the social impact of the investments will be maximized. At the same time, the environmental management system

will create a favorable setting for domestic and foreign investment opportunities, through the organization and simplification of the ground rules and through the impetus that environmental attributes and natural resources would acquire as a means of generating revenue.

**Risks:**

Restructuring of ANAM. One immediate risk of the program relates to the potential problems that the government could face in implementing the restructuring plan outlined for ANAM. In this regard, through the program: (a) the approval of ANAM's new structure and its incorporation in the Civil Service will be secured by MEF executive decree; and (b) ANAM will be supported during execution so that it has program resources, allowing it to begin implementing the new structure that has been designed and agreed upon.

Agencies' management capacity. The program's success assumes that the agencies will be effective in carrying out their functions of control and supervision, in accordance with the regulations of the Law on the Environment. This involves a timely strengthening of the current ability of the agencies and UASs with functions that are vital to environmental management. In order to reduce this risk, agreements with the agencies will be signed and a coordination and monitoring mechanism will be established at ANAM, in order to guarantee the resources to execute the activities designed and allow for effective interagency coordination, with the corresponding support and commitment on the part of the government.

The country's fiscal constraints. The current government has demonstrated to the Bank that this operation has high priority, despite the country's fiscal constraints, which could affect the allocation of the local contribution. However, the program's design indicates that operating expenditures will remain constant and that the increases in revenue are sufficient to absorb the counterpart funding needs required by the program.

**Special contractual clauses:**

**A. Conditions precedent to the first disbursement of the loan**

1. Establishment by ANAM of the program's Operational Planning Unit (OPU) and the hiring or appointment of the minimum staff needed to start program execution, as previously agreed upon with the Bank (paragraph 3.6).
2. Presentation, to the satisfaction of the Bank, of agreements incorporating environmental management signed with at least three agencies in the Interagency Environmental System (paragraph 2.10).
3. Signing of the agreement between ANAM and the consulting firm that will support and train ANAM in the administration and execution of the program (paragraph 3.3).

4. Approval of the new ANAM structure, by executive decree (paragraph 2.7).

**B. Special conditions precedent to the disbursement of resources for the execution of Component III – Environmental Management Initiatives.**

1. The signing of the agreement between ANAM and the specialized agency for the administration of the component's environmental investments and implementation of the two sets of Operating Regulations, after review and approval by the Bank (paragraphs 2.34 and 3.3).

**C. Disbursements to begin the program's activities**

1. It is recommended that the disbursement of up to US\$400,000 be permitted, once the conditions precedent indicated in the General Conditions – Article 4.01 (a) legal report; (b) appointment of staff; (e) chart of accounts – have been met, in order to begin the execution of the program with prioritized activities (paragraph 3.32).

**D. Other conditions**

1. Annual meetings for program monitoring (paragraphs 3.35 and 3.36).
2. Midterm evaluation (paragraph 3.39).
3. Reimbursement of retroactive expenditures for up to US\$100,000 is proposed, charged to the loan (paragraph 3.33).

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

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

This operation also does not qualify as a poverty targeted investment (PTI) (paragraph 4.16).

**Exceptions to Bank policy:**

See Procurement of goods and services.

**Procurement:**

The procurement of goods and services, the construction of works and contracting of consulting services will be carried out in accordance with standard Bank procedures, with the exception referred to at the end of this paragraph. International competitive bidding will be used for procurement of goods of over US\$350,000 and for contracting of consulting services for amounts over US\$200,000. The largest of the

works relates to work space improvements for ANAM, the cost of which will be less than US\$300,000. Amounts below those established in the loan contract for international call for proposals or bidding will be governed by the simplified procedures that will be incorporated as Annex D to the contract, summarized in paragraph 3.28.

As an exception to standard Bank procedures, it is proposed that the least cost method of selecting consulting services be used (paragraph 3.29).