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**PANAMA**

**PROGRAM OF COMPREHENSIVE URBAN DEVELOPMENT  
OF CITIES WITH TOURISM POTENTIAL**

**(PN-L1154)**

**LOAN PROPOSAL**

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4. <a href="#">Procurement plan</a>
<b>OPTIONAL</b>
1. <a href="#">Program economic analysis</a>
2. <a href="#">Program Operating Regulations</a>
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10. <a href="#">Smart management</a>
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12. <a href="#">Poverty and inequality in Panama</a>
13. <a href="#">Regional development of tourism clusters in Panama – management and governance report</a>
14. <a href="#">Comprehensive urban development support for medium-sized Panamanian cities</a>
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## ABBREVIATIONS

AAUD	Autoridad de Aseo Urbano y Domiciliario de Panamá [Panama Urban and Household Sanitation Authority]
AIG	Autoridad Nacional para la Innovación Gubernamental [National Authority for Government Innovation]
AMPyME	Autoridad de la Micro, Pequeña y Mediana Empresa [Micro, Small, and Medium-sized Enterprise Authority]
ATP	Autoridad de Turismo de Panamá [Panama Tourism Authority]
CCI	Creative and cultural industries
CGR	Office of the Comptroller General of the Republic
CIC	Cultural Innovation Centers
CNT	National Tourism Council
CRT	Corporate Results Framework
DAF	Administration and Finance Division [of the ATP]
ESMP	Environmental and Social Management Plan
ESMR	Environmental and Social Management Report
GDP	Gross domestic product
ICB	International competitive bidding
IDAAN	Instituto de Acueductos y Alcantarillados Nacionales [National Water and Sewer Systems Institute]
INEC	Instituto Nacional de Estadística y Censo [National Institute of Statistics and Census]
IRR	Internal rate of return
ISTMO	Integration and Technological Solutions of the Operational Management Model [system]
LIBOR	London Interbank Offered Rate
MSMEs	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
PEU	Program execution unit
PMTS	Master Plan for Sustainable Tourism in Panama
QCBS	Quality- and cost-based selection
SMCTPs	Small and medium-sized cities with tourism potential

## PROGRAM SUMMARY

### PANAMA PROGRAM OF COMPREHENSIVE URBAN DEVELOPMENT OF CITIES WITH TOURISM POTENTIAL (PN-L1154)

Financial Terms and Conditions				
<b>Borrower:</b>			<b>Flexible Financing Facility<sup>(a)</sup></b>	
Republic of Panama			<b>Amortization period:</b>	20 years
<b>Executing agency</b>			<b>Disbursement period:</b>	6 years
Panama Tourism Authority (ATP)			<b>Grace period:</b>	6.5 years <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	LIBOR-based
<b>IDB (Ordinary Capital):</b>	100 million	97	<b>Credit fee:</b>	<sup>(c)</sup>
			<b>Inspection and supervision fee:</b>	<sup>(c)</sup>
<b>Local:</b>	3 million	3	<b>Weighted average life:</b>	13.25 years
<b>Total:</b>	103 million	100	<b>Approval currency:</b>	U.S. dollar
Program at a Glance				
<p><b>Program objective/description:</b> The program's objective is to support urban and socioeconomic development of small and medium-sized cities with tourism potential (SMCTPs) in Panama. Its specific objectives are to: (i) improve access to and the quality of services, infrastructure, and urban management; (ii) boost tourism development by improving infrastructure and promoting productive community development using a gender-based approach; and (iii) strengthen the planning, management, and promotion of sustainable and resilient tourism cities at the national and local levels.</p>				
<p><b>Special contractual conditions precedent to the first disbursement of the loan:</b> The Panama Tourism Authority (ATP) will provide evidence that it has: (i) signed an agreement with the Ministry of the Economy and Finance for the transfer of program resources and program execution, pursuant to the terms and conditions previously agreed upon with the Bank; (ii) signed the corresponding interagency collaboration agreements with the Municipio of Pedasí; the Municipio of Boquete; the Municipio of Bocas del Toro; the Municipio de Tierras Altas; the Municipio of Taboga; the Municipio de Soná; the Ministry of the Environment; the Panama Maritime Authority; the Micro, Small, and Medium-sized Enterprise Authority (AMPyME); the National Institute of Culture; the National Authority for Government Innovation (AIG); the Ministry of Housing and Land-use Planning; the National Land Administration Authority; the National Water and Sewer Systems Institute (IDAAN); and the Panama Urban and Household Sanitation Authority (AAUD); (iii) formed the program execution unit and hired or appointed, as the case may be, its key personnel (program general coordinator, planning and monitoring specialist, procurement specialist, financial specialist, legal specialist, environmental specialist, and social specialist); and (iv) approved the program <a href="#">Operating Regulations</a>, pursuant to the terms and conditions previously agreed upon with the Bank (paragraph 3.9). Additionally, the borrower will fulfill the special contractual conditions precedent to the first disbursement of the loan, set forth in Annex B of the <a href="#">environmental and social management plan (ESMR)</a>.</p>				
<p><b>Special contractual conditions for execution:</b> (i) prior to the bidding process for works, a specific agreement for each work will be signed between the ATP and the corresponding ministry and/or municipality for the purpose of executing each project, which will include, inter alia, the relevant operating and maintenance conditions, including the allocation of resources required to that end; and (ii) prior to initiating the works in question, the rights to legal ownership, easement, and/or usage will have been obtained for the land on which the works are to be implemented (paragraph 3.10). Additionally, the borrower will fulfill the special contractual conditions of execution set forth in the <a href="#">ESMR</a> – Annex B.</p>				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
<b>Challenges:<sup>(d)</sup></b>	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>
<b>Crosscutting themes:<sup>(e)</sup></b>	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>

<sup>(a)</sup> 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, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the relevant policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> 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 Panama's economy has had the highest growth rate in all of Latin America and the Caribbean for the past two decades. Between 2010 and 2018 alone, the average annual growth rate was 6.5%, resulting in a 43% increase in per capita GDP in constant terms [9].<sup>1</sup> This growth has occurred in a context of macroeconomic and fiscal stability.
- 1.2 This economic momentum and its resulting benefits have helped reduce poverty in Panama, although not uniformly across regions. For instance, poverty and extreme poverty in 2015 affected 13% and 3% of the population of the district of Panama, respectively, whereas the corresponding figures for the district of Bocas del Toro were 52% and 29%, and 49% and 20% for the district of La Pintada, respectively [10]. Economic growth has been concentrated in the metropolitan areas of the Pacific and Atlantic coasts, mainly in Panama City, and more recently in Colón, with these areas accounting for 84% of the country's GDP and 75% of its 4.1 million inhabitants [7]. In contrast, Panama's small and medium-sized cities have lower levels of economic development [10], as well as more pronounced gender gaps than those observed at the national level, owing to labor market access-related issues.<sup>2</sup> These cities include the category of small and medium-sized cities with tourism potential (SMCTPs).<sup>3</sup>
- 1.3 **Urban development challenges for SMCTPs.** The Master Plan for Sustainable Tourism in Panama 2007-2020 ([optional link 11](#)) identifies 26 tourist destinations in the country, 24 of which are categorized as SMCTPs. Generally speaking, SMCTPs have low levels of development with deficient infrastructure and basic services. Official data for 2018 indicate that the average level of satisfaction with basic services in SMCTPs (including water, sewage, and solid waste) was 52% (although there are extreme cases, such as Besiko—located in the Ngäbe Buglé indigenous region—with 13.1%. In Panama City, however, satisfaction levels were 96.4%.<sup>4</sup> With regard to access to potable water specifically, coverage in Panama City is 100%, whereas average coverage in SMCTPs is around 60% in places like Bocas del Toro, Santa Fé (province of Veraguas), and Sambú, where coverage gaps are 39%, 34.3%, and 28.3%, respectively. There are similar or greater shortcomings in SMCTPs concerning access to and quality of infrastructure and other urban services, including roads, sanitary sewers, and solid waste collection [7].
- 1.4 Weak urban management in SMCTPs is also evident. Generally speaking, SMCTPs do not have the necessary administrative and technical capacity,

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<sup>1</sup> [Optional link 15](#) contains the bibliographic references for note numbers enclosed in brackets [#].

<sup>2</sup> On average, women's labor participation in the provinces of Bocas del Toro, Los Santos, and Chiriquí is 10 percentage points lower than the national average (48% versus 58%).

<sup>3</sup> SMCTPs are cities that have a population of between 1,500 and 100,000 inhabitants (according to the categories set forth in [Basic Law 77 of 2001](#) of the National Water and Sewer Systems Institute (IDAAAN)), as well as natural and/or cultural attractions with tourism potential. For more information, see [optional link 16](#).

<sup>4</sup> The same occurs with poverty rates in these cities: a very low poverty rate of 3.7% in Chitré, and a very high rate of 91.6% in Calovébora ([optional link 16](#)).

planning instruments, or financial resources for effective urban management.<sup>5</sup> Unlike Panama's major cities (Panama City, David, and Colón), none of the SMCTPs have binding land-use management plans [12] or the technical capacity to execute the investment funds that are allocated to them annually.<sup>6</sup> In fact, even though Law 66 of 2015 requires that a minimum number of city management professionals be hired,<sup>7</sup> no SMCTP has the minimum number of staff with the required technical qualifications. Thus, an SMCTP like Pedasí only executes between 13% and 30% of the resources allocated to it, due to difficulties in designing projects and carrying out bidding processes [2]. These weaknesses further indicate that SMCTPs do not have the capacity to meet the demands of citizens in a structured way due to their limited use of new technologies and information systems, nor do they have the capacity to address the challenges of climate change (which are starting to become evident). The foregoing can have a significant economic impact on these cities [13].

- 1.5 **Tourism development challenges in SMCTPs.** In recent decades, Panama's tourism model has tended to concentrate tourism offerings and investment in established destinations, such as Panama City and the Panama Canal. Consequently, there is less tourist activity in SMCTPs, due to a lack of infrastructure and appropriate conditions for welcoming visitors, as well as a limited supply of tourism services and products, all of which hinder these cities' economic development. For instance, although 15 SMCTPs focus on developing coastal marine activities, only 10 have dock facilities or other marine infrastructure. Furthermore, only 13 of the 24 SMCTPs have adequate tourist signage, just 11 have tourism information kiosks, and only two have interpretation centers. This situation is reflected in the lower numbers of tourists visiting SMCTPs, among other indicators, especially compared to the number of tourists that visit Panama City. In fact, the total number of tourists that visited the 24 SMCTPs in 2016 accounted for just 62% of those who visited Panama City. Given this situation, the 2018 Master Plan for Tourism 2018<sup>8</sup> identified tourism infrastructure improvements in the SMCTPs as a critical factor for promoting the decentralization and diversification of the country's tourism offerings.
- 1.6 The governance challenges in Panama's tourism sector are significant, especially because of the vast network of relationships between public and private actors at both the national and local levels. At the national level, the Panama Tourism Authority (ATP) and the National Tourism Council (CNT)<sup>9</sup> are responsible for formulating, implementing, and monitoring policies and plans for the tourism

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<sup>5</sup> Regional development of tourism clusters in Panama. IDB/ARUP, Report 3B, 2018 ([optional link 13](#)).

<sup>6</sup> The Law on Decentralization of Public Management of 2015 specifies the annual transfers to be made for Panama's various districts ([optional link 16](#)).

<sup>7</sup> The minimum required team consists of an engineer, a legal advisor, an administrator, a planner, a manager of citizen services, and a manager of city services.

<sup>8</sup> This is the updated Master Plan for Sustainable Tourism 2007-2020.

<sup>9</sup> The National Tourism Council (CNT) is made up of the Minister of Trade and Industry, the Minister of the Economy and Finance, the Minister of the Interior and Justice, the Minister of Public Works, the Minister of Foreign Affairs, or their delegates, as well as four main representatives and their alternates who are members of the Panama Tourism Chamber, selected from shortlists presented by tourism chambers to the CNT's executive board.

sector. Since the ATP was created in 2008, improvements have been observed in the sector's management, thanks to legislation that supports planning and prioritizes decentralization. Nevertheless, significant weaknesses persist. According to recent studies,<sup>10</sup> these include: (i) limitations associated with the qualifications of staff, procedures, and internal regulations; (ii) outdated tools for tourism planning; (iii) a lack of statistics on the tourism sector, especially as regards tourism demand; (iv) a dearth of marketing planning; and (v) weaknesses in project management, coordination among sectors, and technical assistance provided at the local level [4]. These weaknesses are caused by a lack of: (i) manuals that spell out operating procedures, strategies, and support, as well as project execution; (ii) georeferenced statistical information systems; (iii) staff trained on project design and monitoring; and (iv) mechanisms of interagency coordination, as well as coordination with private and community stakeholders. These shortcomings are even more evident in the eight ATP regional offices [3].

- 1.7 As a result of the foregoing, tourism management at the local level also has shortcomings. Municipal governments in the SMCTPs generally lack organizational structures for tourism management,<sup>11</sup> since only five of the 24 SMCTPs have local tourism promotion units. Other specific deficiencies include: (i) a lack of tourism planning tools; (ii) a lack of qualified staff and specific budget lines for the tourism sector; and (iii) scant participation and representation of the private sector and civil society in tourism promotion associations. It is also important to bear in mind that few other economic activities are as climate-dependent as tourism. However, urban and tourism management in SMCTPs does not currently have the technical, institutional, or financial capacity to address challenges associated with climate change. According to projections related to these challenges, SMCTPs are vulnerable to rising sea levels, temperature increases, and changes in rainfall patterns, which also affect tourism in these cities ([optional link 7](#)). Fifteen of the SMCTPs are coastal cities, meaning that they will be exposed to floods, displacement of wetlands, and erosion of coastal areas.
- 1.8 **Gender equity ([optional link 6](#))**. Despite the gender gaps in economic participation in Panama, tourism is a sector that offers greater job opportunities for women, especially in terms of employment and entrepreneurial initiatives.<sup>12</sup> Overall, women currently occupy more than half of the jobs in this sector, or 54%, which is 11 points above the national average for other sectors (43%).<sup>13</sup> However, there are considerable differences in economic activities within this sector: artistic and creative activities are the least feminized (25%), and activities involving travel agencies and restaurants are the most feminized (72% and 60%, respectively), although these tend to be family businesses that do not offer a very structured offerings. In that regard, agencies like the Competitiveness Center for the Western Region of Panama (CECOMRO) and tourism chambers are working to step up investment in tourism infrastructure and strengthen job training and technical

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<sup>10</sup> ATP (2018) Analysis of Tourism Governance. (Master Plan for Sustainable Tourism in Panama, 2008). This study was carried out as part of the preparations for this program.

<sup>11</sup> Ibid; ATP (2008) Master Plan for Sustainable Tourism in Panama.

<sup>12</sup> Source: World Trade Organization (2010). Global Report on Women in Tourism ([optional link 6](#)).

<sup>13</sup> ENRED Panamá S.A. (2017). Analysis of the tourism and handicrafts sector in Panama ([optional link 6](#)).



- assistance for entrepreneurs, with the aim of diversifying and promoting more and better tourism-related businesses and jobs. Achieving greater and better participation of women will help stimulate local economies, as well as further promote female labor participation in the tourism sector. In turn, this will help promote the economic empowerment of women and their families and narrow Panama's gender gap in economic participation.
- 1.9 **Social cohesion.** Poverty and social inequality in Panama have weakened social cohesion among the country's various populations. In SMCTPs, one factor that contributes to this situation is the arrival of new groups that do not necessarily integrate into the local population. Individuals from inside Panama and abroad often come to SMCTPs in order to retire or invest. Estimates suggest that foreign residents account for 10% to 15% of SMCTP populations in places like Bocas del Toro and Boquete (of the 105 formal hospitality accommodations in Bocas del Toro, nearly 80% are foreign-owned). These new residents are introducing new ways of life and social coexistence, which has weakened local cultural identity and greatly eroded the local population's interest in becoming involved community and local management issues. In Bocas del Toro, for instance, it is estimated that of the 16 local organizations (commerce or civic), 30% do not include members from the local population, while 20% of these organizations are run by individuals from foreign countries or other parts of Panama ([optional link 11](#)).
- 1.10 **Cultural identity.** In spite of traditions, celebrations, and festivals that attract a significant number of visitors to SMCTPs,<sup>14</sup> these events are not used as a way to strengthen local identity and cultural diversity. According to information from the Ministry of Trade and Industry, Boquete and Bocas del Toro do not currently have programs that support the development of handicrafts or cuisine, despite having considerable local and cultural experience in these areas. Thus, stimulating and promoting creative and cultural industries could be a tool for strengthening local creative ecosystems and using cultural identity and diversity as a competitive advantage. Like other local cultural activities, creative and cultural industries also offer a way to strengthen local cultural identity and social cohesion among various population groups.<sup>15</sup> Unfortunately, none of the SMCTPs have cultural meeting places that would help encourage interaction and social harmony among these groups.
- 1.11 **Smart management ([optional link 10](#)).** Regarding smart urban management, Panama has favorable conditions in terms of connectivity infrastructure and regulations,<sup>16</sup> and SMCTPs are formally involved in digital modernization projects at the national level (such as those run by the AIG). However, SMCTPs have difficulty operating and incorporating new technological tools, mainly due to the lack of adequate operating systems and skilled human resources. For instance,

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<sup>14</sup> The ATP makes a distinction between tourists, referring to individuals who spend the night in a destination, and visitors, which include tourists, cruise passengers, and excursionists.

<sup>15</sup> In Panama, data from the National Institute of Statistics and Census (INEC) for 2010 indicate that creative and cultural industries generated US\$797 million in revenue.

<sup>16</sup> Panama is number one in the IDB Broadband Development Index. [Broadband Development](#).

Bocas del Toro is connected to the national 311 Citizen Services Center.<sup>17</sup> However, the city does lack the necessary operational interface and workflows for responding to the requests that it receives and for which it is responsible. Additionally, technical staff of the Municipio of Bocas del Toro generally only have basic technological and digital knowledge. These examples show that SMCTPs have untapped potential for using technology to improve their management performance.<sup>18</sup>

- 1.12 **Developing SMCTPs as a national priority.** The challenges presented above limit the SMCTPs' capacity for diversification and economic growth, especially when it comes to developing tourism potential and productive participation of the local population. In 2017, the tourism sector accounted for 5.9% of Panama's GDP [15] and was identified as among the sectors with the greatest potential for contributing to the country's diversification and production-related growth,<sup>19</sup> especially through the development of SMCTPs. However, the lack of basic services, tourism infrastructure, as well as weaknesses with regard to governance and viable initiatives for public and private participation have limited tourist flows to these cities and hindered their sustainable and resilient development. The many issues affecting SMCTPs have been identified as a priority area for Panama that requires special attention from national authorities.
- 1.13 In order to address these issues, the Panamanian government has requested Bank technical assistance to develop an intervention methodology to focus on current challenges in SMCTPs. With technical cooperation financing through "Support for Integral Urban Development of Medium-sized Cities in Panama" (loan ATN/OC-16434-PN) ([optional link 14](#)), detailed diagnostic assessments and participatory strategic planning exercises will be carried out in some SMCTPs, which will help identify priority actions for their sustainable and resilient development. The plans and actions identified have laid the groundwork for the design of this operation.
- 1.14 **Program strategy.** The proposed operation prioritizes strategic actions that will help improve living conditions for populations in participating SMCTPs, strengthen urban and socioeconomic development in SMCTPs, and strengthen them as tourist destinations. A multisector investment loan is recommended to comprehensively address the many weaknesses in urban infrastructure and services, tourism infrastructure, and urban and tourism management. The strategy also aims to strengthen social cohesion, local cultural identity, and gender equity; step up community activities to foster creative and cultural industries; and modernize urban and tourism management through the use of new digital technologies. The operation includes building technical capacity of the ATP and

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<sup>17</sup> The 311 Citizen Services Center falls under the National Authority for Government Innovation (AIG) and serves as a liaison between the government and citizens who wish to submit complaints, reports, ideas, suggestions, and requests for information and public services.

<sup>18</sup> It is estimated that for every 1% increase in digitalization, there is an increase of 0.5% in GDP and 0.13 points in the Human Development Index ([optional link 16](#)).

<sup>19</sup> The lack of detailed statistics makes it difficult to determine the tourism sector's impact on local economies. This is one of the issues that will be addressed by this program.

local units that promote tourism in the selected SMCTPs with the aim of improving their technical capacity and interaction with sector entities and private actors.

1.15 **Representative sample.** The ATP selected Boquete, Bocas del Toro, and Pedasí as representative cities of SMCTPs in Panama. These cities were selected based on the following criteria:<sup>20,21</sup> (i) population of more than 1,500 inhabitants; (ii) better-than-average score on the evaluation of tourist attractions and facilities (ATP methodology); (iii) lack of urban services, such as drinking water, solid waste management, and sewer systems;<sup>22</sup> (iv) good connectivity with the main urban centers in each province; and (v) priority status in the country's development plans. The main characteristics of the SMCTPs selected are as follows:

- a. **Boquete.** This SMCTP has 21,370 inhabitants and is located in the highlands of Chiriquí province. It has a mountainous landscape, a spring-like climate, and many cultural and natural attractions ([optional link 11](#)). The main natural attraction is the Barú Volcano, while cultural attractions include a flower and coffee fair and a Jazz and blues festival. These events attract an average of 180,000 visitors per year, with 100% hotel occupancy during the high season and estimated economic earnings of US\$12 million. However, the arrival of tourists causes the city to collapse, overwhelming its basic services. Mobility is also a problem owing to, inter alia, inadequate access roads, a dearth of signage and parking, as well as a lack of technological tools for monitoring the city and coordinating teams that help improve citizen security and the optimal use of public spaces.
- b. **Bocas del Toro.** Thanks to its great natural and cultural heritage, Bocas del Toro is one of Panama's main tourist attractions, drawing more than 60,000 visitors per year. With a population of 16,585,<sup>23</sup> most tourist activities in the Bocas del Toro district are located on Colón Island, including ecotourism, diving, and boating. However, its capital, Bocas del Toro, does not have the necessary infrastructure to provide services that meet international standards. The city does not provide appropriate solid waste treatment (its landfill is not sustainably managed) nor does it have the technical and financial capacity for waste collection, transfer, and final disposal. It does not use technology to efficiently support waste management and other public services, even though a national service—the 311 Citizen Services Center—is officially available to the city. Additionally, the problem of the city's insufficient drinking water supply becomes exacerbated during festivals, with the arrival of some 1,500 tourists each day. According to estimates of the Master Plan for Sustainable Tourism in Panama 2007-2020,

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<sup>20</sup> These criteria were identified as critical in the results evaluation document from the evaluation of the objectives of the PMTS 2007-2020 (ATP, 2018).

<sup>21</sup> The selection also aimed for representation of the various types of tourist attractions in SMCTPs.

<sup>22</sup> Various authors have made connections between the level of development of transportation infrastructure and basic services (water, energy, telecommunications, sanitation) and the volume of international arrivals to destinations (Tang and Rochananond, 1990, in Thailand; Kim et al., 2000, in South Africa; and Seetanah et al., 2011, in Mauritius) ([optional link 16](#)).

<sup>23</sup> According to the 2010 census.

this destination could significantly increase tourism revenues by investing in basic and tourism infrastructure, as well as better city management.

- c. **Pedasí.** Located in the province of Los Santos, Pedasí has a population of 4,000. As the point of access for visitors to the wildlife refuge on Iguana Island, the town is in a prime location and has many cultural and natural attractions. Although it receives more than 13,000 visitors each year, Pedasí does not have an information center; it lacks the infrastructure required to accommodate tourists bound for Iguana Island (wharves, parking, public restrooms); and does not effectively manage local tourism service providers [14]. While the town has a collection system and a landfill for solid waste, they are not managed in a sanitary and sustainable way. Pedasí's road network is insufficient and its public spaces are in poor condition, thus limiting access to the main points of interest. While the Chamber of Tourism<sup>24</sup> is in the process of being strengthened, it needs support to attract a greater variety of actors within its structure. Furthermore, the city is exposed to frequent floods due to the lack of stormwater drainage systems, making it vulnerable to climate change.
- 1.16 Table 1 lists the projects that are included in the program's representative sample, which was used to conduct the technical, economic, and socioenvironmental analyses of the program and to move forward with the project development processes needed for timely execution. The sample includes eligible prototype projects from the three targeted SMCTPs and represents 30% of the investment.

**Table 1. Projects of the representative sample (US\$ millions)**

City	Project	Amount
Pedasí	Comprehensive solid waste management (Component I)	6,100,000
	Alternative urban mobility modes (Component II)	2,500,000
	Rehabilitation of El Arenal beach facilities (Component II)	90,000
Boquete	Comprehensive solid waste management (Component I)	3,900,000
	Comprehensive sustainable tourism mobility (Component II)	4,350,000
	Public spaces improvement (Component II)	2,420,000
Bocas del Toro	Feasibility study – comprehensive solid waste management project (Component I)	200,000
	Water supply system (Component I)	10,500,000
<b>Total</b>		<b>30,060,000</b>

- 1.17 In addition to the three aforementioned SMCTPs, the program will target another three cities.<sup>25</sup> These were selected in consultation with the national authorities, based on preestablished criteria. All participating cities will receive comprehensive support for the urban, tourism, and management considerations outlined in the program strategy.

<sup>24</sup> Chambers of tourism are private organizations made up of tourism companies that are looking to develop tourist activity in various destinations.

<sup>25</sup> The three additional SMCTPs that were selected in collaboration with the authorities are: Volcán, Municipio of Tierras Altas; Santa Catalina, Municipio of Soná; and Taboga, Municipio of Taboga.

Figure 1. Prioritized SMCTPs



- 1.18 **Lessons learned.** This operation includes lessons learned from Bank programs for comprehensive urban development, such as promotion of cultural heritage in the Program to Revitalize Neighborhoods and Heritage Infrastructure (loan 3564/OC-CH); and tourism sector projects, including the National Tourism Development Program in Salvador (loan 3682/OC-BR) and the Tourism Development Program – Colonial City of Santo Domingo (loan 2587/OC-DR). Lessons taken into account for this program include: (i) the importance of private sector participation in tourism throughout the various program phases to increase the likelihood of success for programs in the sector; (ii) prioritizing the needs of the population to improve its quality of life and make tourism development processes viable; and (iii) adopting multisector approaches that simultaneously address infrastructure needs and management weaknesses in both urban and tourism development.
- 1.19 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and the Corporate Results Framework 2016-2019 (document GN-2727-6), by promoting social inclusion and equality and infrastructure services. It is also aligned with the crosscutting areas of: (i) gender equality and diversity, by increasing women’s participation in the labor market and improving the well-being of women and children through access to quality public services; (ii) institutional capacity and rule of law, by building public sector capacity to formulate and execute projects; and (iii) climate change and environmental sustainability, by promoting ways to reduce the vulnerability of tourist destinations to climate change and minimizing their carbon footprint. In all, 39.13% of this operation’s resources are invested in adaptation to climate change activities, according to the [joint methodology of the multilateral development banks for tracking climate change adaptation finance](#). These resources contribute to the IDB Group target of increasing financing for climate-related projects to 30% of approvals by year-end 2020. The operation is also consistent with the Urban Development and Housing Sector Framework Document (document GN-2732-6), as it expands access to basic urban services for the local population (Dimension of Success 2); the Climate Change Sector Framework Document (document GN-2835-8), as it finances interventions that mitigate the effects of climate change on cities (Dimension of Success 4); the Water and Sanitation Sector Framework Document (document GN-2781-8), as it finances solid waste management projects; Transportation Sector Framework (document GN-2740-7), as it finances

road improvements and pedestrian infrastructure; and the Gender and Diversity Sector Framework Document (document GN-2800-8), as it promotes women's entrepreneurship in cities (Dimension of Success 5). The program is aligned with the priority area of improving basic service delivery to populations living in poverty, as set forth in the IDB Country Strategy with Panama 2015-2019 (document GN-2838). It is also included in the 2019 Operational Program Report (document GN-2948-2) and addresses the Panamanian government's priorities concerning regional inequality by prioritizing the development of small and medium-sized cities and promoting the tourism sector as a strategy for sustaining economic growth and diversifying Panama's production.

- 1.20 **Compliance with the Public Utilities Policy (document GN-2716-6) ([optional link 4](#))**. The program and sector objectives at the national level are consistent with the principles of this policy and meet the conditions of financial sustainability and economic evaluation for the program's water, sanitation, and solid waste works. Regarding water and sanitation projects, the National Water and Sewer Systems Institute (IDAAN), which provides these services nationally, currently covers its operational and maintenance costs through a combination of revenue from fees and transfers from the Panamanian government that are made both timely and transparently—meaning that there is a subsidy for supply. Additionally, a plan is in place to improve the operational and financial sustainability of the IDAAN in upcoming fiscal years, which will be strengthened through other Bank programs, including the Program to Improve the Operational Management of the National Water and Sewer Systems Institute in the Panama City Metropolitan Area (loan 4434/OC-PN), approved in 2017. With regard to solid waste management, SMCTPs municipal government provide solid urban waste collection, transfer, and final disposal services. Their operational and maintenance costs would be covered by a combination of city budget resources,<sup>26</sup> revenue from sanitation fees, and fees from strategic partnerships with other stakeholders. Similarly, the works to be financed under the program are socioeconomically viable, according to the economic analysis of the project sample ([optional link 1](#)).

## **B. Objectives, components, and cost**

- 1.21 The program's objective is to support urban and socioeconomic development of small and medium-sized cities with tourism potential (SMCTPs) in Panama. Its specific objectives are to: (i) improve access to and the quality of services, infrastructure, and urban management; (ii) boost tourism development by improving infrastructure and promoting productive community development using a gender-based approach; and (iii) strengthen the planning, management, and promotion of sustainable and resilient tourism cities at the national and local levels. The operation is structured into three components:
- 1.22 **Component I. Infrastructure and urban management (IDB US\$63.05 million)**. The aim of this component is to improve access to and the quality of urban management services. It will finance: (i) infrastructure and urban services, such as water, sewer systems, solid waste, mobility, public spaces, and adaptation to

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<sup>26</sup> This special condition for execution calls for agreements to be signed in order to ensure execution and sustainability of the waste projects.

- climate change measures; and (ii) modernization of urban management, including the design of regional development plans, technical support for municipios to improve urban services management and the monitoring of mobility and public security through the use of new technologies and smart systems. For infrastructure and urban services, as well as for the plans supported by this component, the aim is also to incorporate measures and technologies that help reduce greenhouse gases and increase the selected cities' resilience to climate change.
- 1.23 **Component II. Tourism infrastructure and community development (IDB US\$22 million).** The aim of this component is to improve the quality of tourism infrastructure and promote production-oriented community development. It will finance: (i) strategic tourism infrastructure in urban centers, such as docks, interpretation centers, and signage systems; and (ii) the implementation of cultural innovation centers,<sup>27</sup> including the development of production-oriented projects and communities to foster entrepreneurship, cultural identity, and social cohesion. As part of the cultural innovation centers, financing will be provided to refurbish buildings, purchase furniture and computer equipment, design a self-management model, and cover operating costs for up to two years. Financing will also be provided for activities such as training, technical assistance, and competitive projects for microenterprises in sectors of opportunity for tourism.<sup>28</sup> Community projects will include events to raise awareness and promote local cultural production, social integration activities, and community-based tourism promotion programs. Both activities will include projects related to creative and cultural industries and will adopt a gender-based approach.
- 1.24 **Component III. Modernization of tourism governance (IDB US\$9.40 million).** This component focuses on strengthening tourism management at the national and local levels. In the case of the former, the following will be financed: (i) development of new management models for the ATP; (ii) procurement of equipment and software; (iii) training of national- and provincial-level tourism management and planning staff; (iv) diagnostic assessment of and improvements to the national tourism statistics system; and (v) updating instruments for tourism planning and tourism marketing planning. At the local level, the following will be financed: (i) design of tourism development plans; (ii) tourism management and planning training for technical staff in participating mayor's offices, to include environmental sustainability and climate change; (iii) institutional strengthening of local chambers of tourism and participating councils; and (iv) support for developing tourism investment pilot projects through specialized technical assistance for teams from government and local tourism agencies.
- 1.25 **Administration costs (IDB US\$5.55 million; Local US\$3 million).** Financing will be provided to cover the costs of forming the program execution unit (PEU),

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<sup>27</sup> The cultural innovation centers will be used for training, knowledge exchange, and incubation activities; centers for creation, exhibition, and marketing; and social and community centers. As part of their implementation, financing will be provided for the design of a self-management model. Partnerships will also be explored with the private sector and civil society so that these centers can be independent and sustainable in the medium and long term.

<sup>28</sup> These activities will be coordinated with those sponsored by the [Program to Support Productive Development through Human Capital](#) (loan 4689/OC-PN), which focuses on the western region of Panama and includes the tourism sector as one of its pillars.

program audits, and any evaluations, monitoring, and studies required under the environmental and social management framework. The local contribution will only be used to cover PEU staff expenses during program execution years.

1.26 **Crosscutting actions.** Through its components, the program will finance crosscutting actions for each of the participating SMCTPs in the following key areas:

- a. **Gender equity, cultural identity, and social cohesion.** Strengthening cultural identity, social cohesion, and gender inclusion will be promoted through cultural innovation-center activities, with support for production- and community-oriented projects. To that end, cultural innovation centers will focus on strengthening local creative ecosystems, training for production-oriented development, and promoting community activities that foster local cultural identity and cohesion among different social groups. Accordingly, the cultural innovation centers will serve as a tool for enhancing the use of local cultural resources for productive community development and inclusive cultural identity. In promoting gender inclusion, the specific needs of men and women will be taken into account when identifying the activities to be carried out. Special events and training will be offered specifically for women's economic empowerment ([optional link 6](#)).
- b. **Smart management.** The use of new technological tools will be promoted in accordance with local institutional and financial capacity. As part of the comprehensive mobility project in Boquete, financing will be provided to install monitoring cameras and a control center to facilitate collaboration of public officials and local management capacity, especially for organizing large events. For the cities of Boquete and Pedasí, financing will be provided for wireless connectivity services in public spaces targeted by the operation. Lastly, financing will be provided to the three cities in order to develop workflows for the 311 urban services, which are the responsibility of municipal governments, along with staff training.<sup>29</sup>
- c. **Climate change.** The program will support strategic activities to help ensure the sustainability and environmental resilience of the selected cities. Accordingly, all project infrastructure will include: (i) ecofriendly technologies that promote efficient use of resources (e.g. energy, water consumption, and recyclable materials); and (ii) measures that enhance the resilience of program infrastructure to the effects of climate change; for instance, using permeable paving materials. In that regard, studies will be financed in each SMCTP to identify the main sources of greenhouse gas emissions and measures to mitigate them, as well as urban risks associated with climate

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<sup>29</sup> In order to ensure that the proposed interventions are sustainable, one or more of the following three criteria were incorporated into the design: (i) having a direct relationship with the operating plans of projects that already exist or that will be financed by the program, so that no additional resources are needed for operations or maintenance (i.e. the monitoring cameras); (ii) having the program offer initial operational support (two years) and then transferring it to the responsible national institution, as supported by the framework agreement (i.e. Wi-Fi); and (iii) using municipalities' existing responsibilities for national programs, with the necessary technical strengthening for effective and sustainable operations (i.e. the 311 system).



change. These studies will serve as input for a training program and will guide the design of program interventions.

### C. Key results indicators

- 1.27 The program will provide comprehensive support to six SMCTPs.<sup>30</sup> The program's expected impact is an increase of at least 20% in property value per square meter in targeted SMCTPs, with the following outcomes: (i) narrowing of the gap in drinking water coverage between the district of Panama and the SMCTPs; (ii) substantially improvement in the SMCTPs' solid waste collection; (iii) increase hotel occupancy rates as a result of tourist activity in the SMCTPs; (iv) greater women's participation in new startups; and (v) improvement in ATP's institutional capacity performance and tourism management in beneficiary municipios (see Annex II, Results Matrix).
- 1.28 **Beneficiaries.** The main beneficiaries will be SMCTP residents who will enjoy greater access to urban services; local tourism and economic actors who will experience increased demand; and ATP and municipal governments who will have better tools for managing the tourism sector.
- 1.29 **Economic analysis ([optional link 1](#)).** The ex ante economic evaluation was conducted using a cost/benefit analysis of the total cost of the projects planned in the three cities of the program's representative sample. The methodology for estimating the economic impact of the projects in terms of improving urban and tourism infrastructure took into account the appreciation in real estate values for properties that would directly benefit from the program. The result of the cost/benefit analysis shows that the three selected SMCTPs account for a set of projects with high economic returns—i.e. an internal rate of return (IRR) of 26%. The level of sensitivity is medium, with cut-off values of +15% for investment cost and -12% for economic benefits.
- 1.30 For each of the three cities, the economic return on the projects is greater than 12%, but the sensitivity level varies. Specifically, Pedasí and Bocas del Toro (IRR of 15% and 22%, respectively) are more sensitive to changes in investment cost and economic benefits. While their rates of return are 15% and 22% respectively, the cut-off values are only 2%/-2% for Pedasí (very high sensitivity) and +26%/-21% for Bocas del Toro. Boquete has a positive rate of return (IRR of 35%) and medium sensitivity for estimated economic impact and investment cost. If investment costs increase by 29% or economic benefits decline by 23%, then the project would no longer be viable.
- 1.31 The results of the cost/benefit analysis for the projects of the representative sample demonstrated an economic return above 12% due to the high priority placed on improving basic services, urban improvement, and tourism potential in these three cities. According to the sensitivity analysis, the economic return on the projects in the three SMCTPs remains robust even if investment costs increase.

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<sup>30</sup> This number may vary depending on the projects costs for addressing urban and tourism priorities in the participating cities.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The total cost of the program is US\$103 million, financed with a US\$100 million investment loan from the Bank's Ordinary Capital. The program has been designed as an investment loan for multiple works since it includes projects for different types of separate infrastructure that meet the eligibility criteria. It also includes a representative sample for evaluation and execution. There will be a local counterpart contribution of US\$3 million. The execution period will be six years, which is the amount of time needed to develop and implement the priority projects. Additionally, this period will ensure that there is collaboration and coordination with the agendas of the participating national sector entities.
- 2.2 **Selection criteria for program projects.** The selected cities will be eligible for comprehensive interventions, supplementing investments made in basic services infrastructure and tourist infrastructure, and/or actions geared toward improving urban management, tourism governance, and productive community development. The selection criteria will be included in the program Operating Regulations ([optional link 2](#)). The program will prioritize infrastructure projects that address gaps in urban basic services in the following sectors: (i) solid waste management (ii) sanitation; and/or (iii) drinking water. Priority will also be accorded to tourism infrastructure projects that meet the following criteria: (i) must be located on public land; (ii) must complement the city's tourism projects and tourism infrastructure; and (iii) must improve and/or diversify local tourism offerings. The specific projects to be financed will be technically viable, aligned with the prioritized sectors (i.e. urban, tourism, urban and tourism management, and productive community development), and have moderate environmental and social impacts (category "B").

**Table 2. Estimated program costs (US\$ millions)**

Components	IDB	Local	Total	%
Component I. Infrastructure and urban management	63.05	-	63.05	61.22
Component II. Tourism infrastructure and community development	22.00	-	22.00	21.36
Component III. Modernization of tourism governance <b>3</b>	9.40	-	9.40	9.13
Administration costs	5.55	3	8.55	8.3
<b>Total</b>	<b>100</b>	<b>3</b>	<b>103</b>	<b>100</b>

**Table 3: Disbursement schedule (US\$ millions)**

Financing source	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
<b>IDB (total)</b>	2.7	12.6	19.4	23.3	28.8	13.2	100
<b>%</b>	2.7	12.6	19.4	23.3	28.8	13.2	100

## **B. Environmental and social risks**

- 2.3 The program is classified as a category “B” operation and has a moderate level of potential negative environmental and/or social impacts. The main environmental impacts are related to potential pollution of soil and waterways during landfill operations in Boquete and Pedasí, where there is also an insignificant risk of conversion/degradation of natural and/or critical habitats. There is a risk of environmental liabilities due to pollution of soil and groundwater in the landfills of Boquete and Pedasí, as these do not currently have waterproofing systems. The main social impacts involve the resettlement of two families that live on one of the landfills and the informal recyclers who work there. The program will not finance projects that could adversely impact indigenous communities, significantly degrade or convert natural habitats, or cause damage to critically important cultural sites.
- 2.4 Because this is a multiple works program, an environmental and social analysis was performed, along with the corresponding environmental and social management plan (ESMP) ([optional link 8](#)) for the three projects of the sample, and an environmental and social management framework ([optional link 9](#)) for the program. From 27 to 29 March, consultations on the program and its socioenvironmental management measures were carried out with the population and other interested parties in the three cities of the sample. The main concerns raised during the consultations have to do with prioritization of projects that the participants consider to be key, but that are not included in the sample; the participation of local actors in program monitoring; and the accelerated degradation of biodiversity that is being caused by increased tourism flows to these areas. The reports on the consultations are available on the Bank’s website.

## **C. Fiduciary risks**

- 2.5 Two medium-level fiduciary risks were identified: (i) the executing agency’s (ATP) lack of familiarity with Bank operational policies on financial matters and questions about the agency’s technical capacity in that regard; and (ii) the executing agency’s unfamiliarity with Bank operational policies for procurement/contracting of services and questions about the agency’s technical capacity in that regard. Mitigation measures have been identified, including: (i) technical assistance and training for PEU staff and staff of the ATP’s Administration and Finance Division (DAF) who are responsible for financial management, to be provided by fiduciary specialists of the IDB Country Office, and hiring a financial specialist with the experience and capacity needed to implement and interpret IDB financial management policies and guidelines; and (ii) technical assistance and training for PEU and ATP staff who are responsible for procurement, to be provided by fiduciary specialists of the IDB Country Office, and hiring a procurement specialist with the experience and capacity needed to implement and interpret IDB procurement policies.

## **D. Other key issues and risks**

- 2.6 The potential lack of coordination among the participating stakeholders was identified as a high-level risk. To mitigate this, legal technical assistance will be provided to develop the specific coordination agreements required for the program, and a program coordinator will be appointed, who will be responsible for coordinating with the various stakeholders on matters related to the planning and

implementation of the program's specific activities, and for matters related to communications.<sup>31</sup> The following five medium-level risks were also identified: (i) changes in government priorities that may impact the program, associated with changes in government administrations at the national and local levels during 2019; and the lack of proper communication with the new authorities regarding the program's scope; (ii) technical shortcomings of the PEU that may impact the program's projects and prevent them from being implemented within the planned scope, costs, and time frame; (iii) institutional reforms may not be adequately implemented due to a lack of ownership on the part of institutional staff; (iv) municipios may not be able to successfully strengthen their urban and tourism management capacity; and (v) the possibility that tourism governance may not be strengthened and improved. The mitigation measures for each of these medium-level risks are: (i) adequate communication and awareness-raising for the transition team and new authorities at the national, provincial, and district levels regarding the program's scope and objectives, as well as opportunities for incorporating new projects; (ii) specialized technical assistance to support the PEU's technical management of the program, including the drafting of terms of reference, technical specifications, and contract supervision, as well as awareness-raising and communication with municipal councils regarding the program's expected scope and benefits; (iii) development of a change-management strategy and the allocation of resources for its implementation for the purpose of raising awareness, informing, and ensuring the adequate participation of ATP staff in the institutional reforms; (iv) adequate communication with and awareness-raising of new urban and tourism technical specialists regarding the program's objectives and capacity-building activities at the municipal level; and (v) appropriate communication and awareness-raising with members of chambers of tourism and the CNT on the benefits and importance of their participation as strategic partners in executing the program and implementing the District Advisory Councils.<sup>32</sup>

- 2.7 **Sustainability:** The cost/benefit analysis found that the program's interventions are economically viable, which will lead to an increase in the revenues collected by municipal governments and relevant entities. This is due to the fact that payment collection will increase as a result of service improvements. Additionally, cities will collect taxes owing to economic revenue from increased tourism, thereby generating more resources for operating and maintaining the program's projects.

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<sup>31</sup> In order to facilitate the signing of specific coordination agreements and ensure coordination with national and local institutions that have authority over project activities in the program, all of the required framework agreements have been signed between the ATP and the Municipio of Pedasí, the Municipio of Boquete; the Municipio of Bocas del Toro, the Ministry of the Environment; the Panama Maritime Authority; the Micro, Small, and Medium-sized Enterprise Authority; the National Institute of Culture; the National Authority for Government Intervention; the Ministry of Housing and Land-use Planning; the National Land Administration Authority; the National Water and Sewer Systems Institute; and the Panama Urban and Household Sanitation Authority. The framework agreements between the ATP and the Municipios of Tierras Altas and Soná are pending.

<sup>32</sup> The Tourism Advisory Councils work to bring together tourism stakeholders in every province, including a representative from the transportation sector who specializes in tourism, and also to coordinate regional tourism development.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

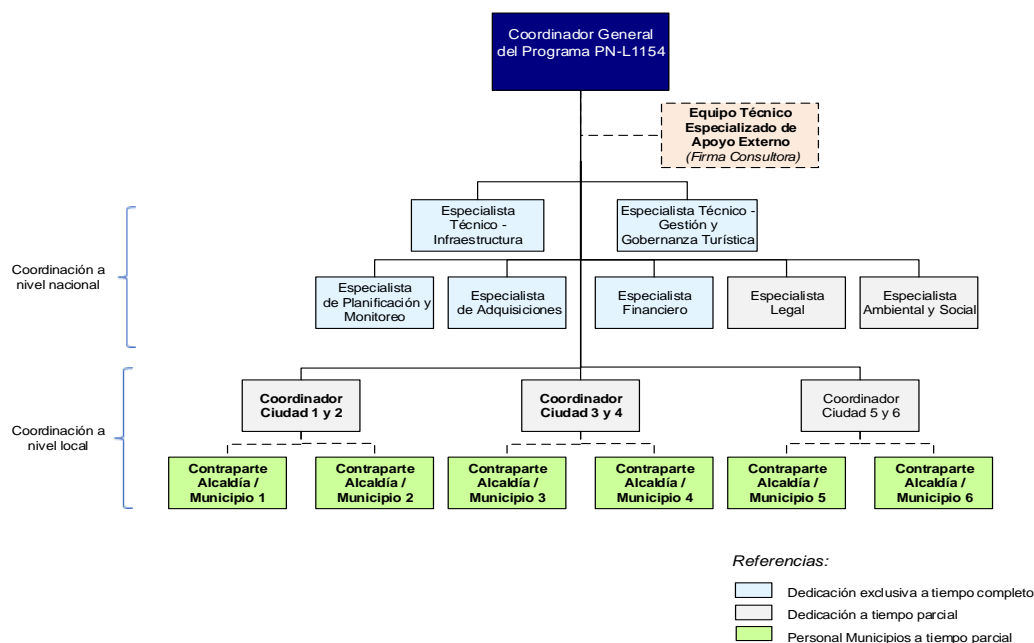
- 3.1 The borrower will be the Republic of Panama and the executing agency will be the ATP, which will be supported by the participation of the beneficiary mayor's offices in the selected cities, as well as national agencies responsible for providing urban services and infrastructure. In order to facilitate this collaboration, the ATP will have support from the Tourism Cabinet, an entity that falls under the Ministry of the Office of the Presidency and whose main objective is to ensure coordination of priority actions among central government and public utility institutions with the aim of promoting competitive tourism destinations.<sup>33</sup> As a member, the ATP will present regular reports to the Cabinet on the actions, progress, and results of program execution. It will also submit requests for support, as needed, in order to ensure effective interagency coordination within the program. The ATP will also form a PEU within its structure that will report to the ATP's highest authority. The PEU will be responsible for program execution and will have a high level of autonomy in the areas of planning and monitoring, technical management, environmental and social management, procurement management, financial management, and management of program communications. The PEU will receive expert specialized technical support from a firm specializing in project technical management; and project supervision, with additional support from the Office of Planning and Tourism Development and the ATP's Administration and Finance Division (DAF).
- 3.2 The PEU will have a general coordinator who will be specifically hired or appointed to this position. He or she will be responsible for: (i) serving as the liaison with the Bank; (ii) disbursement requests; (iii) procurement/contracting proposals; (iv) reports on the use of the loan proceeds; and (v) submitting to the Bank the program's multiyear execution plan and annual work plans, as well as progress, audit, and evaluation reports. The PEU will also be responsible for oversight in order to ensure appropriate use and transparency of the funds for which it is responsible.
- 3.3 The PEU will consist of the following team: (a) a program general coordinator; (b) a planning and monitoring specialist; (c) a procurement specialist; (d) a financial specialist; (e) a legal specialist; (f) an environmental and social specialist; (g) a tourism governance specialist; (h) an infrastructure specialist; and (i) three local-level coordinators who will be financed from counterpart resources.

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<sup>33</sup> The Tourism Cabinet was created by Executive Order 278 of 3 July 2019 and is chaired by the Minister of the Office of the Presidency (Vice President of Panama); its members include the main ministers and managing directors of agencies involved in the tourism sector.



Figure 3. Execution unit structure



- 3.7 **Program Operating Regulations (optional link 2).** The loan will be executed according to the program Operating Regulations, which contain the program's details and execution strategy. It includes: (i) the organizational structure; (ii) the minimum standards set forth in the various specific agreements signed for each work, which determine the responsibilities of the parties for executing, operating, and maintaining such works; (iii) the technical and operational arrangements for execution, including the environmental and social requirements; (iv) the schedule for programming, monitoring, and evaluation of results; (v) guidelines for the financial, audit, and procurement processes; (vi) details on the responsibilities of the PEU, as well as the those of other relevant agencies involved in the program; and (vii) specific projects designed for the municipios of the program sample. At minimum, the annexes will include the following: (i) results matrix; (ii) financial agreements and requirements; (iii) monitoring and evaluation plan; (iv) itemized budget; and (v) ESMP.
- 3.8 **Procurement of goods, works, and services.** Goods, works, and consulting services will be procured 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).
- 3.9 **Special contractual conditions precedent to the first disbursement of the loan:** The ATP will provide evidence that it has: (i) signed an agreement with the Ministry of the Economy and Finance for the transfer of program resources and program execution, pursuant to the terms and conditions previously agreed upon with the Bank; (ii) signed the corresponding

interagency collaboration agreements with the Municipio of Pedasí; the Municipio of Boquete; the Municipio of Bocas del Toro; the Municipio of Tierras Altas; the Municipio of Taboga; the Municipio of Soná; the Ministry of the Environment; the Panama Maritime Authority; the Micro, Small, and Medium-sized Enterprise Authority (AMPyME); the National Institute of Culture; the National Authority for Government Innovation (AIG); the Ministry of Housing and Land-use Planning; the National Land Administration Authority; the National Water and Sewer Systems Institute (IDAAN); and the Panama Urban and Household Sanitation Authority (AAUD); (iii) formed the program execution unit and hired or appointed its key personnel (program general coordinator, planning and monitoring specialist, procurement specialist, financial specialist, legal specialist, environmental specialist, and social specialist); and (iv) approved the program Operating Regulations, pursuant to the terms and conditions previously agreed upon with the Bank. These conditions are necessary for ensuring that the borrower is prepared to start executing the program according to the terms agreed upon with the Bank; to transfer responsibilities to the ATP; and to appoint the minimum staff needed for the work of the PEU.

- 3.10 **Special contractual conditions for execution:** (i) prior to the bidding process for works, a specific agreement for each work will be signed between the ATP and the corresponding ministry and/or municipality for the purpose of executing each project, which will include, inter alia, the relevant operating and maintenance conditions, including the allocation of resources required to that end; and (ii) prior to initiating the works in question, the rights to legal ownership, easement, and/or usage will have been obtained for the land on which the works are to be implemented. Additionally, these agreements will include a provision stating that systems to be built with program resources will generate and/or receive the necessary resources in a transparent and regular manner so as to ensure proper operation and maintenance.

## **B. Summary of results monitoring arrangements**

- 3.11 **Monitoring.** For the purposes of monitoring and evaluating execution, a system will be implemented that focuses on: (i) ensuring the execution of program activities; and (ii) achieving the output indicators and outcomes set out in the results matrix. The following instruments will be used: (i) results matrix; (ii) multiyear execution plan and annual work plan ([required link 1](#)); (iii) monitoring and evaluation plan ([required link 2](#)); (iv) procurement plan ([required link 4](#)); (v) risk management matrix; (vi) semiannual status reports; and (vii) audited financial statements. The Bank and executing agency will hold an annual joint meeting to discuss: (i) progress made on the activities identified in the annual work plan; (ii) the level of achievement of the indicators for each component; (iii) the annual work plan for the following year; (iv) the procurement plan for the following 18 months and possible changes to budget allocations for each component; and (v) monitoring of the program risk matrices.
- 3.12 **Evaluation.** The risk matrix and monitoring and evaluation plan will be used to conduct the evaluation. A midterm evaluation, a final evaluation, and an ex post cost/benefit evaluation will be conducted for the program to address technical, administrative, and financial considerations. The midterm evaluation will be



conducted once at least 40% of the loan proceeds have been disbursed, or three years after the effective date of the loan contract, whichever occurs first. The main objectives of the midterm evaluation are to review progress on all activities scheduled for that period; take stock of any deviations that have occurred and their causes; propose the implementation of corrective measures; and verify the midterm outputs that have been generated, any risks in the corresponding matrix that have materialized, and that the mitigation measures that have been implemented. The final evaluation for each loan will be conducted once 90% of the proceeds have been disbursed for the loan under evaluation. The objectives of the final evaluation are to verify achievement of the targets for each of the expected outcomes, as well as the outputs for each component.

- 3.13 The ex post cost/benefit evaluation will be conducted once the final loan disbursement has been made. This evaluation will use the same methodology as the ex ante economic analysis for this operation. Its objective is to verify the program's economic viability, and its inputs will be the ATP's administrative records. Additionally, once the final evaluation has been concluded and the ex post cost/benefits have been obtained, these reports will be used to determine whether the program's general objectives were achieved.

Development Effectiveness Matrix		
Summary		PN-L1154
<b>I. Corporate and Country Priorities</b>		
<b>1. IDB Development Objectives</b>		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Gender Equality and Diversity -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Women beneficiaries of economic empowerment initiatives (#)* -Micro / small / medium enterprises provided with non-financial support (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Households with wastewater treatment (#)* -Tourism destinations benefited by projects aimed at increasing tourism expenditure, local and social inclusion and/or improving environmental management (#)* -Beneficiaries of improved management and sustainable use of cultural capital (#)*	
<b>2. Country Development Objectives</b>		
Country Strategy Results Matrix	GN-2838	Improving the provision of basic services to the population living in poverty.
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
<b>II. Development Outcomes - Evaluability</b>		Evaluable
<b>3. Evidence-based Assessment &amp; Solution</b>		7.7
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		1.7
3.3 Results Matrix Quality		3.0
<b>4. Ex ante Economic Analysis</b>		8.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
<b>5. Monitoring and Evaluation</b>		8.5
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.0
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>		
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
<b>IV. IDB's Role - Additionality</b>		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: External Control.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	PN-T1187

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

The objective of the program is to contribute to the urban and socio-economic development of the Small and Intermediate Cities with Tourist Vocation (CPIVT) of the country. The specific objectives are: (i) to improve the access and quality of its services, infrastructure and urban management; (ii) increase tourism development by improving equipment and promoting productive community development with a gender focus; and (iii) strengthen the planning, management and promotion of sustainable and resilient tourism cities, at the national and local levels.

The project presents a complete diagnosis; with an accurate description of the challenges related to urban and tourist development of the CPIVTs in Panama. The results indicators included in the results matrix are SMART and have means of verification.

The economic analysis of the project was carried out through a cost-benefit analysis (CBA) and focused on expected benefits related to the valuation of real estate assets. The CBA uses a rigorous methodology (hedonic prices) and has an adequate sensitivity analysis. The analysis concludes that the project is economically viable, with an IRR of 26%, using a discount rate of 12%.

The project includes a monitoring and evaluation plan that is in line with the Bank's standards. The effectiveness of the proposed intervention will be measured through an ex-post cost-benefit analysis.

## RESULTS MATRIX

<b>Program objective:</b>	The program's objective is to support urban and socioeconomic development of small and medium-sized cities with tourism potential (SMCTPs) in Panama. Its specific objectives are to: (i) improve access to and the quality of services, infrastructure, and urban management; (ii) boost tourism development by improving infrastructure and promoting productive community development using a gender-based approach; and (iii) strengthen the planning, management, and promotion of sustainable and resilient tourism cities at the national and local levels.
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### EXPECTED IMPACT

Indicator	Unit of measurement	Baseline		Midterm measurements		Targets		Source/Means of verification	Observations <sup>1</sup>
		Value	Year	Value	Year	Value	Year		
<b>Expected impact: Increased urban and socioeconomic development in the targeted small and medium-sized cities with tourism potential (SMCTPs).</b>									
Property value per square meter in the targeted cities. <sup>2</sup>	Index	100	2018			120	2025	Survey to be conducted in the final year of execution, following a methodology similar to the one used in the ex ante cost/benefit analysis	Details can be found in the monitoring and evaluation plan (footnotes 4 and 5).

### EXPECTED OUTCOMES

Indicator	Unit of measurement	Baseline		Midterm measurements		Targets		Source/Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
<b>Expected outcome 1: Improved quality of life for residents in the targeted cities</b>									
1.1. Gap in drinking water service coverage between targeted districts and the district of Panama	Percentage	11.42	2017			5	2025	Annual reports of the Ministry of the Economy and Finance and the National Water and Sewer Systems Institute (IDAAN)	Monitoring and evaluation plan
1.2. Households with solid waste collection service perceived to be of very good quality by the residents of the targeted districts	Percentage of households with very good quality solid waste collection service/Total SMCTP households	27%	2018			60%	2025	Percentage of households surveyed that consider the quality of this service to be very good. Survey of Urban Services Quality (Pedasí and Boquete)	

<sup>1</sup> The monitoring and evaluation plan provides more information regarding the observations on impact and outcomes.

<sup>2</sup> These values refer to the cities addressed in the cost/benefit analysis—i.e. Pedasí, Boquete, and Bocas del Toro.

Indicator	Unit of measurement	Baseline		Midterm measurements		Targets		Source/Mean of verification	Observations
		Value	Year	Value	Year	Value	Year		
<b>Expected outcome 2: Increase in inclusive tourism development in the target cities</b>									
2.1. Hotel occupancy rate in the five provinces where the target cities are located <sup>3</sup>	Number of rooms occupied/number of rooms available (%)	41.6	2017			50	2025	The baseline percentage refers to the average annual hotel occupancy rate for the five provinces where the program-supported SMCTPs are located. The Panama Tourism Authority (ATP) has a registry of available hotel rooms by province. Hotels submit their average annual occupancy rates at the province level. The methodology used by the ATP compares both sets of information to arrive at the hotel occupancy percentage at the province level.	The program-financed tourism information system will also generate statistics by city, which are not currently available (with the exception of Panama City). The results of the surveys on tourism flows to the cities targeted by the program will also be a source of supplementary information.
2.2. Women beneficiaries of economic empowerment initiatives	Number of women	0	2019			720	2025	Reports of the comprehensive technical assistance project for women entrepreneurs citing startup initiatives for which operating permits have been issued	Contributes to the Corporate Results Framework (CRF) indicator: Women beneficiaries of economic empowerment initiatives.
<b>Expected outcome 3: Governance strengthened in the national and local tourism sector</b>									
3.1 Institutional capacity developed	Weighted average capacity	43.4	2018			90	2025	Final program report approved by the Bank	
3.2 ATP national and provincial employees trained	Employee	0	2019			140	2025	Final program report approved by the Bank and course attendance lists	
3.3 Municipal government employees trained in tourism management	Employee	0	2019			90	2025	Idem	

<sup>3</sup> Provinces of: Chiriquí (Volcán and Boquete); Los Santos (Pedasí); Veraguas (Santa Catalina); Bocas del Toro (Bocas del Toro); and Panamá (Taboga).

**OUTPUTS**

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
<b>Component I: Infrastructure and urban management</b>											
<b>Subcomponent I.1: Infrastructure</b>											
Comprehensive solid waste management projects implemented	Number of projects	0	-	-	1	1	-	-	2	Works acceptance notices/ certificates	
Milestone 1: Pedasí comprehensive waste management project implemented	Idem	0	-	-	1	-	-	-	1	Idem	Includes refurbishment of the municipal dump, rehabilitation of access roads, and construction of a recycling center
Milestone 2: Boquete comprehensive waste management project implemented	Idem	0	-	-	-	1	-	-	1	Idem	Includes studies, designs, and construction of facilities, recycling warehouse, and leachate pond; design of recycling program and procurement of trucks
Pedasí alternative modes of mobility project implemented	Idem	0	-	-	1	-	-	-	1	Idem	Includes municipal sidewalks, bike lanes, and pedestrian crosswalks
Public space integration projects implemented	Idem	0	-	-	-	-	-	1	1	Idem	Includes physical adaptation, landscaping, urban mobility, universal access and connectivity, connection to the Internet, linear parks in the following parks: José Domingo Mélica, El Tropezón, and Feria de las Flores y del Café
Bocas del Toro water supply system improved, expanded, and in operation	System	0	-	-	-	1	-	-	1	Idem	Includes studies and final designs, new exploration wells, transmission lines, access roads, drinking water plant, storage tanks, supply and conveyance lines, and improvements and expansion of water distribution network
Preliminary studies for infrastructure projects prepared	Studies	0	-	1	-	-	-	-	1	Study documents	Includes studies and designs for the Bocas del Toro comprehensive solid waste management project

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Other infrastructure projects that have been built and/or refurbished	Number of projects	0	-	-	-	2	3	1	6	Works acceptance notices/ certificates	Projects for the three new municipios <sup>4</sup> to be defined based on the needs identified and in accordance with the established selection and eligibility requirements. May include basic service projects: water, sanitation, solid waste, mobility, and public spaces (two projects per city for the three new municipios).
<b>Subcomponent I.2: Urban management</b>											
Local development plans drafted and/or updated	Plan	0	-	2	2	2	-	-	6	Plan document and legal directive of approval	Land-use plan and urban management strengthening plan, to include climate-change considerations. Plans should be prepared for each of the six municipios.
Milestone 1: Pedasí local development plan prepared/updated	Idem	0	-	1	-	-	-	-	1		
Milestone 2: Plan de Desarrollo local de Boquete local development plan prepared/updated	Idem	0	-	1	-	-	-	-	1		
Milestone 3: Bocas del Toro development plan prepared/updated	Idem	0	-		1	-	-	-	1		
Milestone 4: Local development plans for the three new municipios prepared/updated	Idem	0	-	-	1	2	-	-	3		
Output 8: Studies of climate change scenarios prepared	Number of studies	0	-	2	2	2	-	-	6		Plan document and legal directive of approval
Milestone 1: Pedasí climate change scenarios study prepared	Study	0	-	1	-	-	-	-	1		
Milestone 2: Boquete climate change scenarios study prepared	Idem	0	-	1	-	-	-	-	1		
Milestone 3: Bocas del Toro climate change scenarios study prepared	Idem	0	-	-	1	-	-	-	1		

<sup>4</sup> The three additional SMCTPs selected with the new national authorities are: Volcán (Municipio of Tierras Altas); Santa Catalina (Municipio of Soná); and Taboga (Municipio de Taboga).

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Milestone 4: Climate change scenarios studies for the three new municipios prepared	Study	0	-	-	1	2	-	-	3		
Activities to improve local urban management developed	Number of activities	0	-	3	3	3	3	-	12	Consulting documents and certificates of delivery	Includes the design of 311 citizen services processes at the local level and technical assistance to design two new urban projects for each of the six municipios
Milestone 1: Activities to improve Pedasí urban management developed	Idem	0	-	1	1	-	-	-	2		
Milestone 2: Activities to improve Boquete urban management developed	Idem	0	-	1	1	-	-	-	2		
Milestone 3: Activities to improve Bocas del Toro urban management developed	Idem	0	-	1	1	-	-	-	2		
Milestone 4: Activities to improve urban management for the three new municipios developed	Idem	0	-	-	-	3	3	-	6		
Training activities for municipios in urban management carried out	Idem	0	-	1	2	1	1	1	6	Training report and course attendance lists	Training activities are planned for 15 individuals from each of the six municipios; involves staff working in all urban management services. These training include climate change variables.
Milestone 1: Training activities for the Municipio of Pedasí in urban management issues carried out	Idem	0	-	1	-	-	-	-	1		
Milestone 2: Training activities for the Municipio of Boquete in urban management issues carried out	Idem	0	-	-	1	-	-	-	1		

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Milestone 3: Training activities for the Municipio of Bocas del Toro in urban management issues carried out	Idem	0	-	-	1	-	-	-	1		
Milestone 4: Training activities for three new municipios in urban management issues carried out	Idem	0	-	-	-	1	1	1	1		
Smart urban management projects developed	Number of projects	0	-	-	2	3	1	-	6	Operating reports	
<b>Component II: Tourism infrastructure and community development</b>											
<b>Subcomponent II.1: Works and infrastructure</b>											
Comprehensive project on sustainable tourism mobility in Boquete in operation	Number of projects	0	-	-	-	-	-	1	1	Works acceptance notices/certificates and operation reports	Includes studies, designs, and construction of parking facility, bus stop, road works to facilitate pedestrian mobility; design and implementation of a comprehensive traffic signage plan; procurement of electric buses; GPS system and monitoring; and the design and implementation of a management model.
Milestone 1: Comprehensive project built	Works project	0	-	-	-	1	-	-	1	Works acceptance notices/certificates	
Milestone 2: Project up and running	Operation	0	-	-	-	-	1	1	1	Operating reports and certificate of satisfactory compliance with maintenance services	Noncumulative target; provides for two years of operation and maintenance services
Ecofriendly amphitheater for cultural events built in Boquete	Works project	0	-	-	1	-	-	-	1	Works acceptance notices/certificates	Green construction/building; includes access infrastructure for persons with disabilities, stage (venue for film-viewing and events), amphitheater, bleachers, dressing rooms, restrooms, gardens, and parking area
Tourist destinations benefited by projects to increase tourist spending, promote local and social inclusion and/or improve environmental management	Number of tourist destinations	0	2	1	-	-	2	1	6	Works acceptance notices/certificates	Includes detailed designs for the project and its implementation for the rollout of each center. Contributes to the CRF indicator: Tourism destinations benefited by projects aimed at increasing tourism expenditure, local and social inclusion and/or improving environmental management.



Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Milestone 1: Pedasí Centro de Facilidades Turísticas de Interpretación [visitor center] upgraded and equipped	Visitor center	0	1	-	-	-	-	-	1	Certificate of delivery	
Milestone 2: Boquete visitor center upgraded and equipped	Idem	0	-	1	-	-	-	-	1	Works acceptance notices/certificates and certificate of delivery	Includes rehabilitation of scenic overlook
Milestone 3: Bocas del Toro visitor cultural center upgraded and equipped	Idem	0	1	-	-	-	-	-	1	Certificate of delivery	
Milestone 4: Visitor centers of the three new municipios upgraded and equipped	Idem	0	-	-	-	-	2	1	3	Works acceptance notices/certificates and certificate of delivery	The program provides for one visitor center for each of the three new municipios.
Other tourism works and tourism infrastructure projects implemented in three municipios	Number of projects	0	-	-	-	-	4	2	6	Works acceptance notices/certificates	Projects for the three new municipios, to be identified based on the needs identified and in accordance with the established selection and eligibility criteria. May include such projects as mobility and signage, among others.
Preliminary studies for infrastructure projects prepared	Number of studies	0	-	1	-	-	-	-	1	Study documents	Includes prefeasibility studies for the Pedasí El Arenal beach infrastructure project
<b>Subcomponent II.2: Community projects</b>											
Cultural innovation centers built and equipped	Number of centers	0	-	-	-	1	2	1	4	Works acceptance notices/certificates, certificate of delivery, and consulting document	Includes the designs, supervision, and execution of the center's construction works and furnishings. The center will have physical areas for: training activities, selling cultural handicrafts, and others to encourage startup business ventures for sociocultural development and tourism.
Milestone 1: Pedasí cultural innovation center built and equipped	Idem	0	-	-	-	1	-	-	1	Works acceptance notices/certificates, certificate of acceptance, and consulting document	Includes the designs, supervision, and execution of the center's construction works and furnishings. The center will have physical areas for: training activities, selling cultural handicrafts, and others to encourage startup business ventures for sociocultural development and tourism.

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Milestone 2: Cultural innovation centers in the three new municipios built and equipped	Number of centers	0	-	-	-	-	2	1	3	Works acceptance notices/certificates, certificate of acceptance, and consulting document	Includes the designs, supervision, and execution of the center's construction works and furnishings. The center will have physical areas for: training activities, selling cultural handicrafts, and others to encourage startup business ventures for sociocultural development and tourism.
Cultural innovation centers refurbished and equipped	Idem	0	-	-	-	1	1		2	Works acceptance notices/certificates, certificate of acceptance, and consulting document	Includes furnishings for the centers with physical areas for: training activities, selling cultural handicrafts, and others to encourage startup business ventures for sociocultural development and tourism.
Milestone 1: Boquete cultural innovation center built and equipped	Idem	0	-	-	-	-	1	-	1	Certificate of acceptance and consulting document	The program provides for the cultural innovation center to be installed in the Boquete Convention Center.
Milestone 2: Bocas del Toro cultural innovation center built and equipped	Idem	0	-	-	-	1	-	-	1	Certificate of acceptance and consulting document	The program provides for the cultural innovation center to be installed in the ATP's provincial administration building, Bocas del Toro.
Comprehensive technical assistance developed for women entrepreneurs to establish and/or strengthen microenterprises	Comprehensive technical assistance	0	-	180	180	-	180	180	720		The comprehensive technical assistance includes training activities, diagnostic assessment studies of market supply and demand, and seed capital. The program provides the participation of 60 women annually.
Milestone 1: Package of comprehensive technical assistance for Pedasí women entrepreneurs to start and/or strengthen micro business ventures developed	Idem	0	-	60	60	-	-	-	120	Consulting documents, training reports, and attendance lists	
Milestone 2: Package of comprehensive technical assistance for Boquete women entrepreneurs to start and/or strengthen micro business ventures developed	Idem	0	-	60	60	-	-	-	120		

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Milestone 3: Package of comprehensive technical assistance for Boca del Toro women entrepreneurs to start and/or strengthen micro business ventures developed	Comprehensive technical assistance	0	-	60	60	-	-	-	120		
Milestone 4: Package of comprehensive technical assistance for women entrepreneurs in three new municipios to start and/or strengthen micro business ventures developed	Idem	0	-	-	-	-	180	180	360		
Cultural diversity awareness raising and cultural promotion events carried out	Number of events	0	3	6	9	9	6	3	36	Action reports prepared and consulting document	Festivals featuring creative local handicrafts, and cultural diversity awareness raising campaigns events, among others. Six such events are planned for each of the six municipios.
Milestone 1: Awareness raising and cultural promotion events carried out in Pedasí	Idem	0	1	2	2	1	-	-	6		
Milestone 2: Awareness raising and cultural promotion events carried out in Boquete	Idem	0	1	2	2	1	-	-	6		
Milestone 3: Awareness raising and cultural promotion events carried out in Bocas del Toro	Idem	0	1	2	2	1	-	-	6		
Milestone 4: Awareness raising and cultural promotion events carried out in three new municipios	Number of events	0	-	-	3	6	6	3	18		Six events for each of the three new municipios are planned

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Micro, small, and medium-sized enterprises (MSMEs) that receive nonfinancial support	MSME	0	-	10	35	25	20	-	90	Action reports prepared, training report, and list of supported companies	Includes specialized technical assistance for improving management and expanding the development of business ventures and community organizations. The program plans to provide technical assistance to 15 enterprises in each of the six municipios. Contributes to the CRF indicator: Number of MSMEs provided with nonfinancial support
Milestone 1: Pedasí MSMEs supported with technical assistance	Technical assistance	0	-	5	10	-	-	-	15		
Milestone 2: Boquete MSMEs supported with technical assistance	Idem	0	-	5	10	-	-	-	15		
Milestone 3: Bocas del Toro MSMEs supported with technical assistance	Idem	0	-	-	10	5	-	-	15		
Milestone 4: Three MSMEs from the new municipios supported with technical assistance	Idem	0	-	-	5	20	20	-	45		
Pilot tourism projects supported by seed capital	Number of projects	0	-	-	10	20	20	10	60	Project rules document, reports on actions taken, list of enterprises that received seed capital, and instrument for delivering seed capital	Associated with the previous output, which provides seed capital support to projects of the enterprises receiving technical assistance. The program provides for the design of rules and seed capital for 10 projects in each of the six beneficiary municipios
Milestone 1: Pedasí pilot tourism projects supported with seed capital	Idem	0	-	-	4	6	-	-	10		
Milestone 2: Boquete pilot tourism projects supported with seed capital	Idem	0	-	-	3	7	-	-	10		
Milestone 3: Bocas del Toro pilot tourism projects supported with seed capital	Idem	0	-	-	3	7	-	-	10		
Milestone 4: Pilot tourism projects in three new municipios supported with seed capital	Idem	0	-	-	-	-	20	10	30		

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
<b>Component III: Modernization of tourism governance</b>											
<b>Subcomponent III.1: Modernization of the ATP</b>											
Government agencies benefitted by projects that strengthen technological and management instruments for improving public service delivery	Number of government agencies	0	-	-	-	-	1	-	1	Consulting documents: diagnostic assessment and plan	Involves preparing a situational diagnostic assessment. Based on that assessment, a proposal will be developed to optimize human talent, institutional restructuring, a review of processes, an analysis of training gaps, and the availability of human resources. It also provides for the design of organization and function, and procedure manuals; updating of the job profile manual; and development of technical guidelines and instructions. This process should include adjustment of the binding regulatory framework. Contributes to the CRF indicator: Government agencies benefitted by projects that strengthen technological and managerial tools to improve public service delivery.
Milestone 1: New management model designed	Design	-	-	1	-	-	-	-	1	Instruments created and internal directive approving the reforms	
Milestone 2: New management model implemented	Percentage	-	-	-	25	40	35	-	100	Reform implementation reports	Involves the implementation of reforms and the instruments included in the design of the new management model.
Master plan for technological development drafted and implemented	Plan	0	-	-	-	-	1	-	1	Consulting documents: diagnostic assessment and plan	Includes a diagnostic assessment of the characteristics of existing systems, and the needs of the institution in terms of proposing more cost-efficient solutions for itself.
Milestone 1: Master plan prepared and approved	Idem	-	-	1	-	-	-	-	1	Internal directive approving the reforms	
Training activities for ATP national and provincial staff carried out	Number of activities	0	-	2	2	2	-	-	6	Training report and list of participants	These training activities include climate change considerations
Milestone 1: Training activities in core functions for ATP national and provincial staff carried out	Idem	0	-	1	1	1	-	-	3	Idem	
Milestone 2: Training activities in support areas for ATP national and provincial staff carried out	Idem	0	-	1	1	1	-	-	3	Idem	

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
National and provincial ATP offices equipped and/or refurbished	Number of offices	0	-	4	4	3	-	-	11	Works acceptance notices/certificates, and certificate of acceptance	Includes the national office and 10 provincial offices
Tourism statistics system implemented	System	0	-	-	1	-	-	-	1	Consulting documents: diagnostic assessment and plan	Includes the preparation of a situational diagnostic assessment and the identification of required improvements, any systems that need to be developed, the preparation of survey instruments, training of ATP staff, and a georeferencing system.
Milestone 1: Tourism statistics system designed	Design	0	-	1	-	-	-	-	1	Instruments created	
Tourism planning documents updated	Instrument	0	-	-	1	5	5	-	11	Plan document and Legal directive of approval	Involves updating Panama's tourism master plan, and the design of plans for 10 provinces
Tourism marketing plan updated	Plan	0	-	-	1	-	-	-	1	Marketing plan document	Involves updating the marketing plan for domestic and international tourists
Work plan for digital tourism marketing implemented	Percentage	0	-	-	-	40%	40%	20%	100%	Reports on actions taken	Involves digital marketing actions with emphasis on the local population to be executed by the ATP
<b>Subcomponent III.2 Modernization of tourism management at the subnational level</b>											
Local tourism development plans drafted/updated and implemented	Number of plans	0	-	2	2	2	-	-	6	Plan document and legal directive of approval	Includes a situational diagnostic assessment of urban profiles, management capabilities, and three activities in each of the six municipios, which may include the procurement of equipment, systems, licenses, and furnishings.
Milestone 1: Pedasí tourism development plans drafted/updated and implemented	Idem	0	-	1	-	-	-	-	1		Involves the implementation of the activities identified in the design of the statistics system
Milestone 2: Boquete tourism development plans prepared/updated and implemented	Idem	0	-	1	-	-	-	-	1		Idem
Milestone 3: Bocas del Toro tourism development plans prepared/updated and implemented	Idem	0	-	-	1	-	-	-	1		Idem

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Milestone 4: Tourism plans for three new municipios prepared/updated and implemented	Number of plans	0	-	-	1	2	-	-	3		Involves the implementation of the activities identified in the design of the statistics system
Municipal training activities in tourism management issues carried out	Number of activities	0	-	1	2	2	1	-	6	Training report and list of participants	Includes training activities for 15 individuals in each of the six municipios. Involves staff of the city halls working in tourism service management and other key staff of the <i>corregimientos</i> [administrative subdivisions of districts] and municipal commissioners who are seen as key for mainstreaming tourism in municipal management.
Milestone 1: Pedasí training activities in tourism management issues carried out	Idem	0	-	1	-	-	-	-	1		
Milestone 2: Boquete activities in tourism management issues carried out	Idem	0	-	-	1	-	-	-	1		
Milestone 3: Bocas del Toro activities in tourism management issues carried out	Idem	0	-	-	1	-	-	-	1		
Milestone 4: Training activities in tourism management issues carried out in three new municipios	Idem	0	-	-	-	2	1	-	3		
Tourism investment pilot projects formulated with specialized technical assistance	Number of pilot projects	0	-	2	4	4	2	-	12	Project documents and action report prepared	Includes the preparation of two projects in each of the six municipios, with knowledge transfer and international good practices in project management
Milestone 1: Pedasí tourism investment pilot projects formulated with specialized technical assistance	Idem	0	-	1	1	-	-	-	2		
Milestone 2: Boquete tourism investment pilot projects formulated with specialized technical assistance	Idem	0	-	1	1	-	-	-	2		

Output	Unit of measurement	Baseline	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Final target	Means of verification	Comments
Milestone 3: Bocas del Toro Tourism investment pilot projects formulated with specialized technical assistance	Number of pilot projects	0	-	-	1	1	-	-	2		
Milestone 4: Tourism investment pilot projects in new municipios formulated with specialized technical assistance	Idem	0	-	-	1	3	2	-	6		
Tourism chambers strengthened with technical assistance	Number of tourism chambers	0	-	2	2	2	-	-	6	Action report prepared	Comprehensive technical assistance for each tourism chamber of the six municipios to strengthen their institutional framework and dialogue capacity with public and private actors of tourism governance.
Milestone 1: Pedasí tourism chamber strengthened with technical assistance	Idem	0	-	1	-	-	-	-	1		
Milestone 2: Boquete tourism chamber strengthened with technical assistance	Idem	0	-	1	-	-	-	-	1		
Milestone 3: Bocas del Toro tourism chamber strengthened with technical assistance	Idem	0	-	-	1	-	-	-	1		
Milestone 4: Chambers of tourism in three new municipios strengthened with technical assistance	Idem	0	-	-	1	2	-	-	3		



## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

<b>Country:</b>	Panama
<b>Project number:</b>	PN-L1154
<b>Name:</b>	Program of Comprehensive Urban Development of Cities with Tourism Potential
<b>Executing agency:</b>	Panama Tourism Authority
<b>Prepared by:</b>	Ezequiel Cambiasso and David Ochoa (FMP/CPN)

### **I. THE COUNTRY'S FIDUCIARY CONTEXT**

- 1.1 The borrower will be the Republic of Panama and the executing agency will be the Panama Tourism Authority (ATP). The ATP will also form a PEU within its structure that will report to the ATP's highest authority. The PEU will be responsible for program execution and will have a high level of autonomy in the areas of planning and monitoring, technical management, environmental and social management, procurement management, financial management, and management of program communications.
- 1.2 The PEU will receive specialized technical support from a consulting firm for administration; technical, environmental, and social management; and project supervision. It will also closely coordinate with the Office of Planning and Tourism Development (DPDT) and the ATP's Administration and Finance Division (DAF).
- 1.3 During the program design process, an analysis of the executing agency's institutional capacity was conducted that demonstrated an emerging capacity for execution and a substantial level of risk in general.

### **II. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS**

- 2.1 With respect to fiduciary risk, the following medium-level risks were identified:
  - a. Delays in program procurement and contracting. The following mitigation measures are proposed: training, ongoing technical assistance, and advisory services provided by the IDB fiduciary team to staff of the PEU and ATP responsible for procurement; hiring/appointing of a procurement specialist with the experience and capacity needed to carry out the procurement planned for program execution, who can also implement and interpret IDB procurement policies and establish procurement management procedures, including procurement planning that will impact the program.
  - b. Delays in presenting audited financial reports. The following mitigation measures are proposed: training, ongoing technical assistance, and advisory services provided by the IDB fiduciary team to staff of the PEU and the ATP's Administration and Finance Division; hiring a financial specialist with the

experience and capacity to implement and interpret IDB financial management policies and guidelines, and who has knowledge of government budgets and budgetary and financial planning.

### III. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 3.1 The agreements and requirements that will be considered in the special provisions are included herein. The Financial Management Guidelines for IDB-financed Projects (document OP-273-12) will be applied, and in accordance with these guidelines: (i) the program's financial statements that have been audited by an independent auditing firm acceptable to the Bank will be requested annually, no later than 120 days after the close of each fiscal year or the date of the last disbursement; (ii) advances of funds will be requested for financial plans for up to 180 days; and (iii) a new advance may be requested once 80% of the previously disbursed proceeds have been accounted for.

### IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The provisions established here will apply to execution for all procurement processes planned under 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.
- 4.3 **Procurement of works, goods, and nonconsulting services.** International competitive bidding (ICB) will be conducted using standard bidding documents issued by the Bank. National competitive bidding (NCB) and shopping will be conducted using the models defined by the Bank for each operation. The project sector specialist will be responsible for reviewing the technical specifications for procurement during preparation of the selection processes.
- 4.4 **Selection and contracting of consultants.** Contracts will be executed using the standard bidding documents issued by the Bank. The sector specialist will be responsible for reviewing the terms of reference for contracting consulting services.
- 4.5 **Selection of individual consultants.** Selections will be made based on candidates' qualifications for performing the work, with a comparison of at least three candidates.
- 4.6 **Use of the country procurement system.** The Bank's Board of Executive Directors approved the use of framework agreement subsystems up to the threshold of US\$250,000 established for NCB (document GN-2538-11), as well as a mechanism for small procurement up to US\$50,000, which may vary should the Bank approve higher levels. The [procurement plan](#) for the operation and subsequent updates will indicate the procurement to be executed through the approved country procurement systems.

- 4.7 **Procurement plan.** The Procurement Plan Execution System (SEPA) or an updated version thereof will be used as the electronic procurement monitoring system.

**Table 1. Thresholds (US\$)**

Works			Goods			Consulting services	
ICB	NCB/ shopping	Shopping for complex works	ICB	NCB/ shopping	Shopping for complex works	International	National
>=3,000,000	>250,000 and <3,000,000	<250,000	<= 250,000	>50,000 and <250,000	< 50,000	>200,000	<=200,000

**Table 2. Main procurement items**

Activity	Type of bidding	Estimated (US\$)
Hiring the construction company, preparation of preliminary studies, and construction of the water supply system for Bocas del Toro	ICB	9,500,000
Hiring of the construction company, preparation of preliminary studies, design, execution of works, and equipment for the comprehensive solid waste management project in Pedasí	ICB	5,500,000
Procurement of vehicles to cover waste collection for the city of Boquete; procurement of four buses for the comprehensive project on sustainable tourism mobility in Boquete	ICB	850,000
Hiring the consulting firm. Design and implementation of a new management model for the ATP	QCBS	2,700,000
Hiring the consulting firm; design and implementation of a technology master plan for the ATP	QCBS	2,000,000
Hiring of the consulting firm; formation of the specialized technical team for external support	QCBS	4,000,000

## **B. Procurement supervision**

- 4.8 All ICB and direct contracting of goods, works, and nonconsulting services will be reviewed in advance. The selection of consulting firms entailing more than US\$200,000 and any single-source selection will be reviewed in advance. For the remaining contracts, the type of review to be used will be determined on a case-by-case basis in the procurement plan.

## **C. Records and files**

- 4.9 The executing agency will keep up-to-date records and orderly files that can be reviewed by the Bank according to the following guidelines:
- a. Procurement documentation must be kept in a single file or folder that is completely separate from the processes financed from local contribution resources or by resources other than program resources.
  - b. Documents will be kept and properly organized, labeled, and numbered, such that they can be clearly and quickly located and identified, and available at all times for the purposes of Bank review and auditing.

## **V. FINANCIAL MANAGEMENT**

### **A. Programming and budget**

- 5.1 The ATP will include the necessary funds for project execution in the amount of its draft budget and submit it to the Ministry of the Economy and Finance prior to 30 April of each year. The Ministry drafts and oversees the budget and will submit a proposal by 31 July of each fiscal year to the National Assembly, which is responsible for approving the budget and any budget increases. The budget covers a period of one year and includes all public sector investment, revenues, and expenditures. In the budget bill for the 2020 fiscal year, the National Public Investment System (SINIP) codes will be created, as well as guidelines for IDB financing and the local contribution. The entire annual budget for the local contribution will first be requested, and once the loan is approved, the executing agency will request substitution of the source of financing.

### **B. Accounting and information systems**

- 5.2 With a view to modernizing public sector management, Panama's national government, through the Ministry of Economy and Finance and the National Accounting Bureau (DNC), has implemented the Integration and Technological Solutions of the Operational Management Model (ISTMO) system. The PEU will make the necessary arrangements with the National Accounting Bureau in terms of identifying relevant system users, training, and system configuration to manage the budget, commit expenditures, and make payments through the system. The ISTMO system is currently being evaluated to determine whether it can be used in IDB-financed projects or a parallel system will need to be used instead.
- 5.3 Accounting will be governed by the standards issued by the Office of the Comptroller General of the Republic (CGR), which are based on the International Public Sector Accounting Standards.

### **C. Disbursements and cash flow**

- 5.4 Panama has enacted a law establishing the use of the treasury single account concept, which the central government has begun implementing. In 2019, an evaluation of the treasury single account and its relationship to implementation of the ISTMO system will be evaluated to determine if it can be used in IDB-financed projects.
- 5.5 The IDB will transfer the loan proceeds into an account at a financial entity to be opened by the Ministry of the Office of the Presidency and used exclusively for the program. In accordance with the program's financial plan, disbursements will be made through advances of funds to cover liquidity needs for up to 180 days. A new advance can be requested once 80% of the cumulative balance pending justification has been accounted for. Reimbursement of payments incurred or direct payments to providers can also be made.

### **D. Internal control and external auditing**

- 5.6 As a result of CGR preaudits, internal control and internal audit systems of government agencies are weak because they rely CGR controls, instead of having efficient processes and controls. Consequently, they are not considered appropriate for the control function required for projects.

**E. External control and reports**

- 5.7 Due to weaknesses in its audit function, the CGR has focused its efforts on preaudits of actions involving government assets. In addition to carrying out administrative processes through preaudits, the CGR does not have the necessary autonomy to perform audits, which is why it is not considered to have the capacity to perform external control of the program.

**F. Financial supervision plan**

- 5.8 Financial supervision will focus on reports by the aforementioned auditors. Supporting documentation for disbursements will be reviewed ex post by the auditors when they perform audits or as part of their financial inspection visits.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/19

Panama. Loan \_\_\_/OC-PN to the Republic of Panama  
Program of Comprehensive Urban Development of Cities with Tourism Potential

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 a “ Program of Comprehensive Urban Development of Cities with Tourism Potential”. Such financing will be for the amount of up to US\$100,000,000, 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 \_\_\_ \_\_\_\_\_ 2019)