

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA3233

Project Name	Sustainable Production Systems and Conservation of Biodiversity (P145621)
Region	LATIN AMERICA AND CARIBBEAN
Country	Panama
Sector(s)	General agriculture, fishing and forestry sector (70%), Public administration- Agriculture, fishing and forestry (30%)
Theme(s)	Biodiversity (40%), Rural non-farm income generation (20%), Micro, Small and Medium Enterprise support (20%), Participation and civic engagement (10%), Decentralization (10%)
Lending Instrument	Investment Project Financing
Project ID	P145621
GEF Focal Area	Biodiversity
Borrower(s)	Republic of Panama
Implementing Agency	Autoridad Nacional del Ambiente
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	21-Feb-2014
Date PID Approved/Disclosed	21-Feb-2014
Estimated Date of Appraisal Completion	07-Mar-2014
Estimated Date of Board Approval	28-Feb-2014
Decision	

I. Project Context

Country Context

Panama has experienced an average of 8 percent annual GDP growth over the last several years and is ranked as a higher-middle income country. Yet, 60 percent of the country's rural residents, a third of the total population, live below the poverty line. The major contributors to the country's GDP, including the Panama Canal, are highly dependent on the sustainable management of natural resources. Panama's forests and natural resources are strategically important for the country's socioeconomic development and poverty alleviation strategies and they conserve globally significant biodiversity, provide livelihoods and sustain cultural heritage.

Panama ranks 10th in the world for its high level of biodiversity in proportion to its size and 29th based on the Global Environment Facility (GEF) Benefits Index for Biodiversity. Panama has important and critical natural habitats in high priority ecosystems containing globally-significant biodiversity and high endemism. Notably, there are 976 species of birds, the second highest

number in Central and North America and more than 10,000 species of plants, 21 times more plant species per km² than Brazil. Approximately 40 percent of the country is covered by forests and many of these areas have high beta-diversity.

Sectoral and institutional Context

Mesoamerican Biological Corridor. Panama's unique geographic location and globally significant biodiversity make it a critical link in the Mesoamerican Biological Corridor (MBC). The rural and indigenous communities living in high biodiversity areas of the corridor, such as in the buffer zones of protected areas (PAs), also have some of the highest poverty rates. Smallholders may farm forest gardens, practice shifting agriculture, and/or raise cattle; the main products are bananas, coffee, cocoa, and oranges, and there is some emerging ecotourism. The MBC in Panama is particularly vulnerable ecologically because it is so narrow and habitat destruction can disrupt this important migratory link. With expected global climate change impacts, this corridor and its PAs become even more important.

Threats to biodiversity conservation. The conservation of biodiversity in the Panamanian MBC depends on reducing the pressures that affect its PAs. There are various factors that affect unsustainable land use decisions near the PAs, including poor land use planning, land use change from agriculture and cattle ranching with soil fertility loss and degradation, large-scale extractive activities and energy projects, unplanned tourism development, deforestation, soil and water contamination, and population growth. There is also a failure to take full account of and value the corridor's ecosystems and its services. Among other impacts, environmental degradation can lead to poor water quality and pollution and subsequent effects on human health and treatment costs and affect the Panama Canal economic activities.

National Environment Authority and National Protected Areas System. The Government of Panama (GOP), through its National Environment Authority (Autoridad Nacional del Ambiente, ANAM) seeks to promote sustainable economic growth, conserve its rich natural resources and biodiversity, and raise awareness of the important environmental services provided by its ecosystems. ANAM administers the National Protected Areas System (NPAS) (Sistema Nacional de Areas Protegidas) and is responsible for the implementation of the Convention on Biological Diversity (CBD). The NPAS consists of 104 PAs encompassing 3.6 million ha (39 percent of the country; 2.7 million ha are terrestrial land). In support of these objectives in the MBC, ANAM has benefited from collaboration with many different organizations, including the World Bank, GEF, the Smithsonian Tropical Research Institute, the Nature Conservancy, and international and national NGOs.

World Bank/GEF Program. Panama has benefited from two World Bank/GEF projects supporting the MBC (see below). The proposed project is building on this foundation and supporting ANAM's efforts to apply a new conservation paradigm based on the creation of economic incentives to preserve biodiversity, financial sustainability of the NPAS, and alternative livelihood options for the resource-dependent local residents.

The Atlantic MBC Project (CBMAP) (2004, TF020454, ICR Outcome rating: Satisfactory) helped build the basic functioning of a newly-established PAs system with particular attention to the management plans as building blocks. This project was successful in introducing the concept of the MBC in Panamanian society and for the first time in Panama, rural communities were involved in biodiversity conservation. The project helped change the public perception of ANAM from an

institution that restricted people's access to natural resources to one that helped provide environmentally-friendly alternative livelihoods. The project supported preparation of management plans for four priority protected areas and 100 community subprojects (80 percent in remote areas, and 75 percent with indigenous peoples).

The Rural Productivity and Consolidation of the Atlantic Mesoamerican Biological Corridor Project (CBMAP II) (TF056628; closing in July 2014) ushered in a significant growth in the size and type of PAs and an emerging understanding of the importance of the buffer zones and local residents in PAs management. CBMAP II helped implement priority actions in management plans in 14 PAs, brought 40,334 ha in the buffer zones under effective conservation, and supported the National System of Information and Monitoring of Biological Diversity (Sistema Nacional de Información y Monitoreo de la Diversidad Biológica, SNIMDB). The project also supported the development of municipal environmental plans and establishment of Consultative Environmental Commissions (CCAs) with the participation of local government and civil society. The project supported 350 subprojects to develop capacity in rural, indigenous, and extremely poor communities. The most commonly supported activities were agro-forestry production systems, ecotourism and handicraft production initiatives. A survey of 140 subprojects financed by CBMAP II confirms that the supported activities are contributing significantly to the family income of their members, varying between 33 and 67 percent of their household income. The GEF Management Effectiveness Tracking Tool (METT) was implemented in the 14 PAs. The average score has improved over five years to an average of 67 percent (2013), representing a basic functioning management system. The project also explored opportunities for self-financing of PAs and piloted co-management arrangements in selected PAs. The project was complemented by support from the Food and Agriculture Organization (FAO) to develop estimates of deforestation and a new map of forest cover.

Complementary biodiversity conservation programs. Panama is benefiting from support for its NPAS from a variety of sources and while are not part of the proposed project, these programs provide the opportunity for synergy and collaboration, complementing one or more components of the project. The International Fund for Agricultural Development (IFAD) is the Implementing Agency of the Sustainable and Climate-friendly Development Project in the Veraguas Province (Proyecto Participa). The NATURA Foundation (Fundación NATURA) is a Panamanian non-profit organization dedicated to conserve ecosystems and their biodiversity and contribute to the protection and integrated management of watersheds.

Challenges to Sustainability of the NPAS. Although Panama has expanded its PAs system to provide good coverage in terms of national area, the government faces the following challenges to long-term sustainability:

- (a) Financial sustainability. A preliminary financing gap study carried out during project preparation of a sample of 39 areas (about 71 percent of total area of the NPAS) shows an estimated annual financial gap for basic coverage for the entire system of \$5.2 million and an even larger gap of over \$12 million for optimal coverage. In particular, the financial gap of the 12 prioritized PAs is \$1.5 million (2013). This funding gap confirms the urgency and importance to develop reliable mechanisms to achieve financial sustainability, allowing investment in PAs and reinvestment of revenues. ANAM also seeks to support market-based conservation tools, such as pilot payment for environmental services (PES) arrangements.
- (b) Participatory management. ANAM has developed instruments to improve management and

administration of the PAs with concessions and co-management agreements. Presently, out of the 104 PAs, 31 percent (32 PAs) are currently co-managed by ANAM with local NGOs, municipalities and other entities. ANAM is seeking to incentivize the involvement of the private sector, civil society and local governments in the financial sustainability of the PAs. The next step in this process will be to create conditions for operating concessions for administration or services and increase operational co-management agreements.

(c) Contribution of biodiversity and biodiversity monitoring. There has been a lack of articulation to policy makers on the contribution of biodiversity to economic and social well-being and limited dissemination of the value of Panama's biodiversity to the country as a whole. The biological monitoring system (SNIMDB), developed under the ongoing CBMAP II is operational and is being implemented in three PAs. As part of the monitoring of the PAs, the SNIMDB will help capture this information, systematize it, and allow for dissemination.

(d) Mainstreaming biodiversity. In order to maximize the integrity and connectivity of the corridor, there is a need to mitigate the negative impact that extractive and productive activities exert on biodiversity. Municipalities near the PAs need support to implement their environmental management plans. Local organizations need financial support for organizational development and for introducing biodiversity-friendly and improved production techniques, such as agro-forestry, organic agriculture, and erosion control.

(e) Marketing and private sector linkages. To pursue marketing of biodiversity-friendly products, producers' organizations must be linked to business alliances to build long-term sustainability, develop business plans and marketing, and explore differentiation initiatives such as bio-labeling/certification and geographical indications. There are untapped opportunities to address sustainable sourcing, link to the work of the International Finance Corporation (IFC) in global agribusiness, identify production chains, and explore private sector involvement in the sustainable production activities. An added challenge is that the cost of entry into these programs can be high, particularly for more remote producers.

Rationale for proposed project. The GOP has requested World Bank/GEF assistance in preparing the proposed project to further the conservation efforts undertaken by two earlier MBC projects, and introduce innovation in sustainability options and support for biodiversity mainstreaming. The project will support enhanced corridor integrity and connectivity, and will contribute to preserve the resilience of regional ecosystems to climatic and other external pressures, including preservation of species of conservation concern. The benefits will be derived from removing habitat transformation and encouraging sustainable harvesting or integration of biodiversity elements at the farm level through biodiversity-friendly practices. Taking into account that biodiversity is a source of food, protection, health, recreation, and economic activities, any negative impact on biodiversity is not only critical for natural species, but for the human inhabitants in those areas. It becomes imperative to demonstrate that there are production systems that are sustainable, biodiversity-friendly, and can contribute to generate income to improve the livelihoods of local residents. Thanks to its global experience, its earlier involvement in the previous GEF projects and its role as an impartial broker, the World Bank can play an effective role in enhancing the participation of civil society, the private sector, and local government, forge alliances, and increase commitment and financial support to the sustainability of the PAs. The GEF/World Bank partnership also has a comparative advantage in the design and implementation of Conservation Trust Funds (CTFs).

II. Proposed Development Objectives

The proposed global environmental objective is to conserve globally significant biodiversity through

improved management effectiveness of 12 project protected areas and mainstreaming, and linking to markets, biodiversity-friendly management practices in their buffer zones.

III. Project Description

Component Name

Sustainable Management of Protected Areas

Comments (optional)

It aims to improve the management effectiveness and long-term sustainability of selected PAs with a focus on financial sustainability and the monitoring of biodiversity in selected PAs.

Component Name

Biodiversity and Sustainable Productive Landscapes

Comments (optional)

The component focuses on activities to mainstream biodiversity and sustainable production landscapes in the buffer zones with emphasis on gaining access to markets.

Component Name

Knowledge Management and Strategic Communications

Comments (optional)

It aims to support the development and implementation of a communication and outreach strategy for dissemination, promotion of partnerships, and fund-raising campaigns.

Component Name

Project Management

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	30.98	Total Bank Financing:	0.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			8.16
Global Environment Facility (GEF)			9.59
Municipalities of Borrowing Country			0.10
LOCAL BENEFICIARIES			0.63
Foreign Private Commercial Sources (identified)			12.50
Total			30.98

V. Implementation

ANAM will be responsible for the management, coordination, supervision, and monitoring of project activities through the same PIU established for CBMAP II. The PIU will be responsible for the technical and fiduciary implementation of the project, including financial management and procurement, ensuring compliance with the project's environmental and social management framework (ESMF) and World Bank safeguard policies. The CBMAP II PIU had high staff turnover initially due to problems finding qualified specialists, particularly in financial management and social issues. The PIU staffing has improved and its current performance shows that the institution

has the sufficient implementation capacity, knowledge of Bank procedures, and technical staff to be the implementing agency of choice for the project. The PIU staff have been trained and most will be retained for the proposed project.

The team is led by a Project Manager supported by technical, financial management, procurement, and monitoring and evaluation specialists. In addition, technical specialists, including those with skills in biodiversity conservation, agribusiness, marketing, environmental economy, social and environmental safeguards, biodiversity monitoring, communications and outreach, will be part of the project team. The Project Manager reports to ANAM's Administrator General. The PIU will coordinate activities with ANAM's existing departments, such as planning, M&E, financial management, procurement, biodiversity monitoring, mapping, and a network of ANAM regional offices in the project area. Each regional office in the project area will be supported by technical specialists hired by the PIU that will provide direct support to subproject implementation and coordination of provision of training and technical assistance. In general, ANAM's regional offices performed well, and worked in close coordination with ANAM's central office.

Other executing entities:

- a) Rural Producer Organizations or Associations: Legally-constituted groups of small farmers or indigenous producers that have experience in implementing environmental subprojects financed by CBMAP II, and that have reached a stage for marketing biodiversity products or services, and would be eligible to prepare and implement subproject proposals under component 2 of the proposed project. These organizations would contribute (in cash and in-kind) toward total subproject costs.
- b) Municipalities: Selected municipalities that have developed municipal environmental plans under CBMAP II would implement subprojects resulting from the priority activities identified in those plans. Municipalities will submit their proposals through their mayors for consideration and evaluation by ANAM, and will contribute toward total subproject costs.

Project operations procedures: The project's Operational Manual (OM) will describe in detail the implementation arrangements and the responsibilities and specific tasks of the PIU. Prior to negotiations, ANAM will make the draft OM available to the Bank.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36	x	
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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