

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC26237

Project Name	PA Metro Water and Sanitation Improvement Project II (P154999)
Region	LATIN AMERICA AND CARIBBEAN
Country	Panama
Sector(s)	Water supply (40%), Sanitation (40%), Public administration- Water, sanitation and flood protection (20%)
Theme(s)	Urban services and housing for the poor (100%)
Lending Instrument	Investment Project Financing
Project ID	P154999
Borrower(s)	Ministry of Economy and Finance
Implementing Agency	IDAAN - Instituto de Acueductos y Alcantarillados Nacionales
Environmental Category	A-Full Assessment
Date PID Prepared/ Updated	30-Jun-2015
Date PID Approved/ Disclosed	30-Jun-2015
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	17-Dec-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Despite impressive pro-poor growth in the last few years sharing prosperity in Panama remains a challenge. Panama experienced an average real GDP growth of 7.2 percent between 2001 and 2013, more than twice the LAC average. This growth has largely benefited the poor. Between 2007 and 2012, poverty declined from 39.9 percent of the population to 26.2 percent, and extreme poverty from 15.6 percent to 11.3 percent (as per the national poverty line). Average income growth of the bottom 40 percent (8.2 percent per year between 2007 and 2012) was significantly higher than income growth for the average Panamanian (6.6 percent per year). Despite strong and fairly inclusive growth at the national level, economic inequality still persists and differing rates of poverty reduction have led to the poor becoming more concentrated in specific geographic zones such as rural areas, indigenous comarcas and areas of rapid urban expansion.

Sectoral and Institutional Context

The Water Supply and Sanitation (WSS) sector is a priority of the new Government of Panama (GoP), which took office in July 2014. The 2015 – 2019 Government Strategic Plan of the Varela Administration (Plan Estratégico de Gobierno - PEG) prioritizes six areas, including Social Inclusion and Improvements in Living Conditions. Of these stand out the GoP's flagship programs Sanitation Program 100/zero (Programa de Sanidad Básica 100/cero), a US\$2.9 billion investment which seeks to achieve 100%, 24-hour-a-day potable water and to eliminate the use of latrines, and a US\$0.4 billion Colon Urban Rehabilitation Plan (Plan de Renovación Urbana de Colon) which includes improvements in water supply and sanitation services for the City of Colon.

There is a disconnect between Panama's economic development and the performance of its urban WSS sector. The National Water and Sewerage Institute (Instituto De Acueductos y Alcantarillados Nacionales - IDAAN) is responsible for the provision of water and sewerage services in urban areas. While water coverage within IDAAN's jurisdiction is high, amounting to 93 percent nationwide, coverage of sewerage services is still low at only 57 percent. Additionally, WSS coverage levels vary greatly across regions and remain a challenge in peri-urban and low-income areas. In addition, IDAAN's performance to deliver quality and efficient WSS services in urban areas is poor despite the country's high water resources availability and a solid macroeconomic situation: service continuity and water quality standards need to be improved, Non-Revenue Water (NRW) is high and metering ratio remains low compared to good practices in well-performing utilities (see Table 1 below). IDAAN's current performance is not only due to a lack of investments in peri-urban and low-income areas but also to an inadequate internal organization and culture characterized by a shortage of qualified human resources despite a large labor force, lack of incentives to perform and weak planning and coordination between its different departments. In addition, the tariffs of IDAAN's services remain a highly politicized and sensitive issue: they have not been revised since 1982 meaning that tariffs have decreased by approximately 50 percent since then if adjusted for inflation. Because of a combination of low tariff and service inefficiency IDAAN needs to rely on subsidies from the Ministry of Finance not only to finance its investments but also its operating expenditures. IDAAN's internal performance is exacerbated by a weak external institutional environment characterized by a regulatory body (Autoridad Nacional de los Servicios Públicos - ASEP) which has not performed its function in the water sector as well as by non-conditional transfer of subsidies from the Ministry of Finance, translating into a lack of definition and enforcement of performance incentives. Other key institution in the urban WSS sector is the Minister of Health (Ministerio de Salud – MINSA) responsible for the definition of the sector policy. MINSA's Sanitation Project for the Bay and City of Panama (Proyecto de Saneamiento de la Bahía y de la Ciudad de Panama - PSBCP) is also responsible for the development of a major program for the development of a sanitation system to address the pollution control of the Panama Bay area.

IDAAN has received the support of several multilateral banks, including the World Bank through the Panama Metro Water and Sanitation Improvement Project. Under the previous administration, IDAAN started the implementation of several projects financed by the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF) and the World Bank, including the Panama Metro Water and Sanitation Improvement Project (Metro.Agua I), a US\$55 million project (including US\$40 million of World Bank financing). GoP's decided to focus the investments financed by each multilateral bank in distinct geographical areas. Metro.Agua I's activities focused on (i) increasing access and improving the quality and efficiency of water supply services in low-income and fast-growing areas located along the Panama – Colon corridor, namely: (a) the peri-

urban communities of the area of Chilibre and (b) the City of Colon, and (ii) strengthening the commercial management of IDAAN at national level. Although the Project has achieved a high level of committed funds, the pace of implementation of the Metro.Agua I Project since its effectiveness in September 2011 has been slow due to a combination of delayed set-up of the Project Implementation Unit (PIU) executing a Bank-financed Project for the first time, delayed preparation of the studies and bidding documents as well as delayed approvals of construction plans and permits by other institutions, that have affected every stage of the Project's implementation.

Support to the Sanitation Project for the Bay and City of Panama. In the urban WSS sector the Bank is also supporting the PSCBP executed by MINSA to implement its mandate to extend sanitation and wastewater treatment services west of the Canal in order to complete the decontamination of the Panama Bay through the Panama Oeste Wastewater Management Project (P154275), currently under preparation. The PSCBP is also receiving support from several international financing agencies including BID, CAF, Japanese International Cooperation Agency (JICA), European Investment Bank (EIB) and OPEC Fund for International Development (OFID). The operation of the sewerage networks and wastewater treatment plants developed under the PSCBP is being outsourced through Operation & Maintenance (O&M) contracts given IDAAN's limited capacity to absorb the rapidly increasing assets to control the pollution of the Panama Bay as well as given its limited experience to operate the recently built large wastewater treatment plants. Ultimately, it is currently envisaged to transfer partially or fully the operation of these infrastructure to IDAAN as it strengthens its capacity.

Relationship to CAS

The proposed Project is well aligned with the recently approved Country Partnership Framework 2015 – 2021. The Country Partnership Framework (CPF) has three pillars: (a) Supporting Continued High Growth; (b) Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups; and (c) Bolstering Resilience and Sustainability. The proposed Project would directly support the objective to improve access to basic services in a sustainable manner within the CPF's second pillar. The Project is also strongly aligned with the Systematic Country Diagnostic (SCD), which highlights water resource management as a key aspect for Panama's environmental sustainability and the need for service providers to keep pace with the country's rapid urbanization.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

Project Development Objective (PDO). The PDO is to increase the coverage, quality and efficiency of the water supply and sanitation services in selected low-income areas of Panama, and to support the modernization of IDAAN.

Key Results (From PCN)

Preliminary Indicators. Preliminary Indicators to measure progress towards meeting the PDO, as well as the number of beneficiaries will be refined at a later stage in project preparation. Initial indicators that are being considered include:

- PDO Indicators:
 - o Direct project beneficiaries (number), of which women (%)
 - o People provided with access to "improved water sources" under the project (number), of which women (%), of which poor (%) – core sector indicator
 - o People provided with access to "improved sanitation facilities" under the project (number),

- of which women (%), of which poor (%) – core sector indicator
 - o Non-Revenue Water in the area of intervention of the project (liters / connection - tbc)
 - o Average number of hours of supply in the area of intervention of the project (hrs/day)
 - o Indicators to measure the modernization of IDAAN are to be defined
- Intermediate Indicators:
 - o New piped household water connections that are resulting from the project intervention (number) – core sector indicator
 - o Piped household water connections affected by rehabilitation works undertaken under the project (number) – core sector indicator
 - o New household sewer connections constructed under the project (number) – core sector indicator
 - o Sewer connections affected by rehabilitation works undertaken under the project (number)
 - o Volume (mass) of BOD pollution loads removed by the treatment plant supported under the project (tons/year) – core sector indicator
 - o Citizen engagement indicator to be discussed with IDAAN during the first preparation mission (the relevance of using the call center used by IDAAN as a grievance and redress mechanism will be assessed)
 - o Other intermediate indicators to measure the improvement of service quality and the modernization of IDAAN to be defined

III. Preliminary Description

Concept Description

Rationale for project scope and articulation between the Metro.Agua I and Metro.Agua II. The scope of the Panama Metro Water and Sanitation Improvement Project II (Metro.Agua II) responds to a demand of the GoP to scale-up and build on the Metro.Agua I Project. The proposed Metro. Agua II follows a “T structure” to address the two parts of its PDO:

- o Under Components 1 and 2, the Project will finance comprehensive interventions to increase the coverage, quality, and efficiency of the water supply and sanitation services in two specific operation units of IDAAN, namely Chilibre and Colon, both units being currently supported by the Metro.Agua I. These Components intend to develop a model of interventions to improve the WSS service delivery that could be replicated in the rest of IDAAN’s operation units. The Chilibre area is one of the fastest-growing in the metropolitan area, attracting migration of low-income population while Colon has been in decline since more than five decades compared to Panama City, a situation that the current administration is trying to address not only through water and sanitation investments but also through an ambitious urban rehabilitation plan.
- o Under Component 3, the Project will finance a transversal component to support the process of transformation and modernization of IDAAN, as a national utility, building on the first focused initiatives taken under the Metro.Agua I. This Component intends to be the engine of the modernization of IDAAN through strategic and structural institutional strengthening. The Components 1 / 2 and 3 respectively will benefit from each other’s as the interventions developed in the operation units of Chilibre and Colon will represent a model to be replicated as part of a broader process of transformation of IDAAN, while those operation units will benefit from the institution-wide modernization process supported by Component 3.

Articulation between the Metro.Agua I/II Projects and the Panama Oeste Wastewater Management Project. The Bank is supporting the PSCBP through the Panama Oeste Wastewater Management

Project. The operation of the sewerage networks and wastewater treatment plants developed under the MINSA's PSCBP is being outsourced through O&M contracts. However, ultimately, it is currently envisaged to transfer the operation of these infrastructure partially or fully to IDAAN as it builds its capacity. Through these two operations under preparation requested by the GoP, the Bank will have an opportunity to permanently dialogue with IDAAN and MINSA, ensure the coordination between both institutions, build the capacity of IDAAN to operate sanitation infrastructure as needed and thus accompany any transfer of operation of the sanitation infrastructure developed by the PSBCP.

- Component 1: Improvement of the WSS services in IDAAN's operation unit of Chilibre (total cost: US\$49 million, including US\$40 million Bank financing). This component will finance in IDAAN's Chilibre operation unit a combination of (i) investments to optimize and rehabilitate IDAAN's water supply system and increase the coverage of sewerage networks and wastewater treatment, and (ii) the strengthening of IDAAN's Chilibre operation unit to improve its operational and commercial management, with a particular emphasis on social issues, through performance-based contracts building on the experience gained under Metro.Agua I.
- Component 2: Improvement of the WSS services in IDAAN's operation unit of Colon (total cost: US\$120 million, including US\$96 million Bank financing). This component will finance in IDAAN's Colon operation unit a combination of (i) investments to increase coverage to improved water supply services in the peri-urban communities of the district of Colon, (ii) investments in the city of Colon for the expansion of the sewerage network, the construction of a wastewater treatment plant and associated pumping stations according to the Master Plan developed under Metro.Agua I and for optimizing and strengthening the water supply system of the city following the experience of a performance contract that emphasizes operational improvements, and (iii) the strengthening of IDAAN's Colon operation unit to improve its operational and commercial management, with a particular emphasis on social issues, through performance-based contracts building on the experience gained under Metro.Agua I.
- Component 3: IDAAN's Institutional Strengthening and Modernization (total cost: US\$10 million, including US\$ 8 million Bank financing). This Component intends to be the engine of the transformation and modernization of IDAAN at the national level. The list of activities financed by this Component is being defined as part of the preparation process. This could potentially include activities to support: (i) the modernization of IDAAN's corporate governance, (ii) the enforcement of regulatory arrangement, (iii) the development of a corporate culture, (iv) a transformation of its internal organization, (v) the modernization of IDAAN's human resources management in order to attract, train, incentivize and retain qualified employees, (vi) the improvement of customer orientation and transparency, (vii) the development of management tools and information systems, (viii) the reinforcing of capacity to operate sewerage system and wastewater treatment plants. This component will also finance the costs related to the operation of the Project Management Unit.

Project duration. Based on the experience from the execution of water projects in Panama and from similar projects in the Water Practice, it is anticipated that the Project will be implemented over a period of 7 years to allow sufficient time for successful completion of the Project's Development Objective.

The Project will support the achievement of the twin goals through its focus on the low-income areas of the city of Colon and peri-urban communities in the districts of Colon and Chilibre.

Chilibre is one of 24 townships (corregimientos) in the district of Panama, with a population of approximately 54,000 inhabitants. Most of the Panama-Colon corridor (an important route connecting the City of Panama on the Pacific and the City of Colon on the Atlantic in parallel with the Canal) runs within the township. Various peri-urban communities have been established along this corridor, often not following solid urban planning guidelines. Although water coverage is relatively high (87 percent), sewerage coverage is only approximately 9 percent, and most of the population use pit latrines or septic tanks as their sanitation solutions. Pit latrines and unmaintained septic tanks can pose risks to public health and environmental sustainability due to possible leakages and contamination of groundwater. An analysis of Unsatisfied Basic Needs (UBN) using 2010 census data, places the population of Chilibre within Panama's bottom 40 percent. In addition, Colon is Panama's second biggest city (with a population of approximately 200,000 inhabitants) and its economic activity contributes to nearly 15 percent of the national GDP. Nevertheless, Colon suffers from high levels of urban violence, dire housing facilities and deficient public services. In fact, in 2012 there were 30 homicides per 100,000 people (while the national average was 17), and most of Colon's neighborhoods do not receive water in a continuous basis, leakages are not fixed promptly and approximately 5,000 illegal connections to the water network exist. IDAAN's coverage of water supply and sewerage services is 77 percent and 55 percent respectively.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	179.00	Total Bank Financing:	144.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		35.00	
International Bank for Reconstruction and Development		144.00	
Total		179.00	

VI. Contact point

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