

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

LAND ADMINISTRATION AND REGULARIZATION PROJECT

(PN-0148)

LOAN PROPOSAL

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ABBREVIATIONS

| | |
|--------|---|
| ANAM | National Authority for the Environment |
| DCBP | Directorate of Cadastre and Patrimony |
| DINRA | Directorate of Agrarian Reform |
| EMP | Environmental Management Plan |
| GIS | geographic information systems |
| LSMS | Living Standards Measurement Survey |
| MBC | Mesoamerican Biological Corridor |
| MEF | Ministry of Economy and Finances |
| MIDA | Ministry of Agrarian Development |
| NPV | Net Present Values |
| NDLG | National Directorate of Local Government |
| PCU | Project Coordination Unit |
| PR | Public Registry |
| PRONAT | <i>Programa Nacional de Administración de Tierras</i> |
| SIICAR | <i>Sistema de Información Integral de Catastro y Registro</i> |
| TOC | Technical Operational Committee |
| UCI | Institutional Coordination Unit |



PANAMA

IDB LOANS

APPROVED AS OF JULY 31, 2002

| | <i>US\$Thousand</i> | <i>Percent</i> |
|---------------------------------------|---------------------|----------------|
| TOTAL APPROVED | 1,922,361 | |
| DISBURSED | 1,460,668 | 76.0% |
| UNDISBURSED BALANCE | 461,693 | 24.0% |
| CANCELLATIONS | 391,925 | 20.4% |
| PRINCIPAL COLLECTED | 674,430 | 35.1% |
| APPROVED BY FUND | | |
| ORDINARY CAPITAL | 1,598,647 | 83.2% |
| FUND FOR SPECIAL OPERATIONS | 280,023 | 14.6% |
| OTHER FUNDS | 43,690 | 2.3% |
| OUTSTANDING DEBT BALANCE | 786,238 | |
| ORDINARY CAPITAL | 704,351 | 89.6% |
| FUND FOR SPECIAL OPERATIONS | 81,367 | 10.3% |
| OTHER FUNDS | 520 | 0.1% |
| APPROVED BY SECTOR | | |
| AGRICULTURE AND FISHERY | 177,769 | 9.2% |
| INDUSTRY, TOURISM, SCIENCE TECHNOLOGY | 72,718 | 3.8% |
| ENERGY | 377,783 | 19.7% |
| TRANSPORTATION AND COMMUNICATIONS | 422,829 | 22.0% |
| EDUCATION | 125,945 | 6.6% |
| HEALTH AND SANITATION | 128,613 | 6.7% |
| ENVIRONMENT | 88,180 | 4.6% |
| URBAN DEVELOPMENT | 69,244 | 3.6% |
| SOCIAL INVESTMENT AND MICROENTERPRISE | 86,597 | 4.5% |
| REFORM PUBLIC SECTOR MODERNIZATION | 338,520 | 17.6% |
| EXPORT FINANCING | 0 | 0.0% |
| PREINVESTMENT AND OTHER | 34,164 | 1.8% |

* Net of cancellations with monetary adjustments and export financing loan collections



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Panama

Tentative Lending Program

2002

| Project Number | Project Name | IDB US\$ Millions | Status |
|--------------------------------|--|-------------------|----------|
| PN0125 | Training and Employment System Development | 8.4 | APPROVED |
| PN0145 | Program to Foster Competitiveness | 7.0 | APPROVED |
| PN0148 | National Land Management Program | 27.0 | |
| PN0147 | Fiscal Management II | 10.0 | |
| PN0149 | Sustainable Develop. Province Bocas del T | 16.2 | |
| Total - A : 5 Projects | | 68.6 | |
| *PN0154 | Colon International Airport | 35.0 | |
| *PN0155 | Bonyic Hydroelectric Project | 10.0 | |
| Total - B : 2 Projects | | 45.0 | |
| TOTAL 2002 : 7 Projects | | 113.6 | |

2003

| Project Number | Project Name | IDB US\$ Millions | Status |
|--|---|-------------------|--------|
| PN0156 | Indigenous Community Development | 10.0 | |
| PN0139 | Priority Activities in the Hydrografic Basin Panama Canal | 5.0 | |
| PN0159 | Improvement Integration Corridor PPP | 49.0 | |
| PN0141 | Apoyo a la Economía Rural (PRORURAL) | 25.0 | |
| PN0143 | Municipal Dev. and Community Participati | 10.0 | |
| PN0152 | Coast Zone Sustainable Management | 10.0 | |
| Total - A : 6 Projects | | 109.0 | |
| PN0062 | Panama City Sanitation Project | 100.0 | |
| PN0157 | Justice Program II | 20.0 | |
| PN0158 | FOMOTEC | 8.0 | |
| Total - B : 3 Projects | | 128.0 | |
| TOTAL - 2003 : 9 Projects | | 237.0 | |
| Total Private Sector 2002 - 2003 | | 45.0 | |
| Total Regular Program 2002 - 2003 | | 305.6 | |

* Private Sector Project



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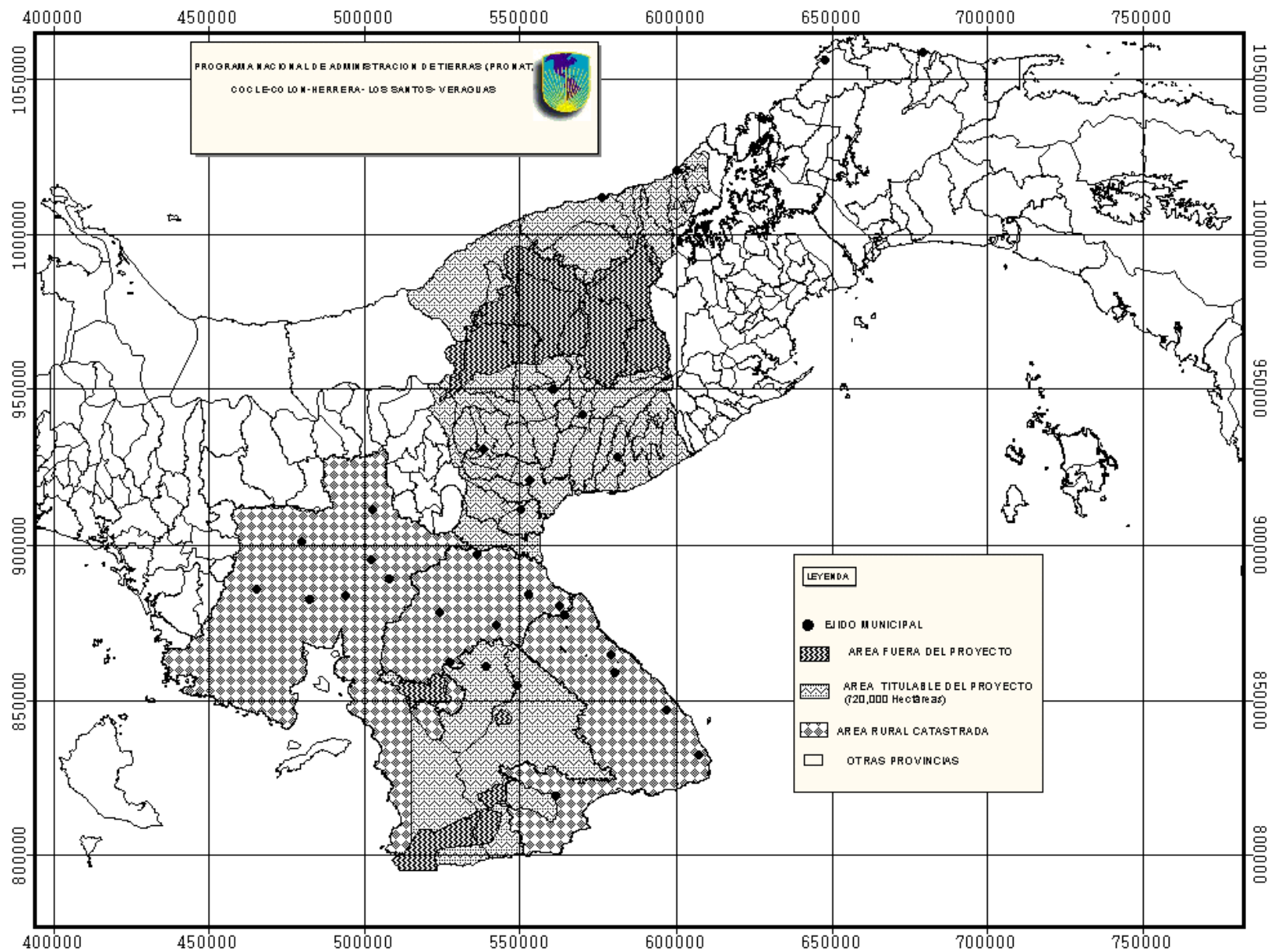
PANAMA

STATUS OF LOANS IN EXECUTION AS OF JULY 31, 2002

(Amounts in US\$ thousands)

| APPROVAL PERIOD | NUMBER OF PROJECTS | AMOUNT APPROVED | AMOUNT DISBURSED | % DISBURSED |
|-----------------|--------------------|------------------|------------------|---------------|
| 1996 - 1997 | 8 | 215,536 | 88,929 | 41.26% |
| 1998 - 1999 | 8 | 327,650 | 90,340 | 27.57% |
| 2000 - 2001 | 4 | 79,378 | 1,863 | 2.35% |
| 2002 | 2 | 15,400 | 0 | 0.00% |
| TOTAL | 22 | \$637,964 | \$181,132 | 28.39% |

* Net of Cancellations . Excluding export financing loans.



LAND ADMINISTRATION AND REGULARIZATION PROJECT

(PN-0148)

EXECUTIVE SUMMARY

| | | |
|--|---|--|
| Borrower: | Republic of Panama | |
| Executing agency: | Ministry of Economy and Finance | |
| Amount and source: | IDB: (OC) | US\$27,000,000 |
| | Local: | <u>US\$ 5,000,000</u> |
| | Total: | US\$32,000,000 |
| Financial terms and conditions: | Amortization Period: | 20 years |
| | Grace Period: | 5 years |
| | Disbursement Period: | 5 years maximum 3 years minimum |
| | Interest Rate: | variable |
| | Supervision and Inspection: | 1% |
| | Credit Fee: | 0.75% |
| | Currency: | U.S. dollars from the Single Currency Facility of the Ordinary Capital |
| Objectives: | <p>The objective of the Project is to promote land tenure security in order to facilitate access to credit and land investment aimed at economic growth in the rural, peri-urban and urban areas of the Provinces of Herrera, Los Santos, Veraguas, Cocle and Colon, or other areas the Government may designate in the future. To achieve the Project's objective, it will be necessary to address the following issues: (i) security of tenure; (ii) institutional modernization; (iii) high land market transaction costs; and (iv) the provision of supplementary services (technical assistance, education, financial services, conflict resolution and the like). The expected results of the Project, to be monitored during execution will be: (i) increased use of land as collateral for credit; (ii) increased long term investment in the productive capacity of land; (iii) a more dynamic land market with a greater number of land transactions; (iv) a more transparent, flexible and efficient process for completing land transactions; and (v) ceteris paribus, higher land prices, reflecting the expectation of higher revenues as a result of establishing formal land titles. As a complementary objective, the Project seeks to promote the integration of environmental procedures, criteria and tools in the land adjudication and administration system.</p> | |
| Description: | <p>The proposed IDB financing would expand the National Land Administration Program (PRONAT) and its geographic coverage, and strengthen the institutional and technical capability of the entities responsible for land titling and administration in Panama. The proposed Project would finance three components, including: (i) Modernization of</p> | |

National and Provincial Land Administration Services; (ii) Land Regularization Services; and (iii) Land Markets and Local Economic Development. These components were identified with the intent of supporting the Government of Panama's objectives and implementation process, while insuring that the proposed Project will be viable as a freestanding, independent activity under the PRONAT framework. The IDB financed project will complement and extend the scope of the existing World Bank financing for PRONAT.

Component 1: Modernization of National and Municipal Land Administration Services (US\$1,275,000). The focus of this component is to provide the legal and institutional framework for the implementation of the PRONAT initiative during the execution of the Program and to promote medium term reforms that will contribute to the sustainability of the system. Activities in this component will be supported at the national level by both the IDB and World Bank in parallel financial operations. The IDB financed sub-components include: (i) support for reforms to the Agrarian Code; (ii) feasibility studies to identify options for the maintenance of the national cadastre; and (iii) a pilot project for property regularization in coastal zones. These activities, which are a necessary and integral part of PRONAT, will support the execution of the massive national regularization campaign.

Component 2. Land Regularization Services (US\$23,563,000). This component provides the necessary support to execute the technical and legal fieldwork required to carry out the massive land regularization process within the project areas. Regularization services include legal cadastre, titling or certification, registry of properties and conflict resolution. This component will also establish different conflict resolution mechanisms that will be available throughout the execution of the fieldwork, as well as improving the installed capacity to provide efficient and dependable dispute resolution services on a sustained basis. Training will be provided to internalize conflict resolution capabilities in the various entities responsible for land administration, especially at the local level. The Project will finance the regularization of land in rural, peri-urban and urban areas of the Provinces of Herrera, Los Santos, Veraguas, Cocle, and Colon, or other areas that the Government may designate in the future. The total area and number of titles to be included in the project area is approximately 750,000 hectares, representing an estimated 120,000 new titles, compared to the 69,000 titles existing at present in the same area. Of this total, 85,000 represent new titles in rural areas, while 35,000 titles would be issued in peri-urban and urban areas.

Component 3: Land Markets and Local Economic Development (US\$2,260,000). Evaluations of land titling projects have identified the concern that providing tenure security alone may not be sufficient to improve the economic situation of project beneficiaries. These studies suggest that measures should be taken to improve access to information,

services and complementary infrastructure, each of which can contribute to improving the livelihood of the beneficiaries of land titling. The project would support the following sub-components to strengthen the local economic impact of land regularization: (i) improve performance of factor markets; (ii) support development of the land market cluster; (iii) strengthen municipal governments use of land information; and (iv) implement public awareness campaigns.

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

The Eighth Replenishment of the Bank identifies as a high priority the modernization and efficiency of public services, including elements such as technological innovation, public sector reform, and strengthening municipal government. The Bank's strategy in Panama is consistent with this agenda, and prioritizes: (i) improving the conditions for competitiveness, (ii) environmental sustainability; and (iii) strengthening governance and transparency. The Government of Panama's program to improve land use with the accompanying land regularization and institutional modernization is consistent with the objectives of the Bank's strategy. In addition, improvements in the land use and administration regimes are an important part of the Banks' support for a more dynamic rural economy, and are also directly related to strengthening the capabilities of municipal governments.

**Environmental/
social review:**

The project is expected to yield measurable environmental and social benefits in rural areas where secure property rights and improved access to credit associated with land tenure should result in improved production practices, and more sustainable resource use. Other benefits are expected from increased use of land administration system by municipal governments to provide public services and infrastructure. The program will not result in significant or foreseeable adverse environmental impact, and will include measures to improve the information and awareness of owners and municipal authorities with regard to land aptitude and improved land use management. While social impacts are difficult to predict, measures have been identified to strengthen the local economic impact of the project and thereby provide for social benefits to mitigate pressures to migrate to urban areas. Specific measures to improve social and environmental impact management in the land administration system are included in each component as appropriate and will be supported during execution by an Environmental and Social Management Plan overseen by a technical specialist hired for the UEP, or assigned to it by the Autoridad Nacional del Ambiente (ANAM), for this purpose. Indicators have been identified with provisions made for data collection and analysis during project execution.

Benefits: Execution of the program is expected to result in land tenure regularization for an estimated 120,000 families in rural and urban areas, increased efficiency of land transactions, improvement in the productivity of land and labor, and enhanced use of land administration systems by local municipalities and private businesses. In addition, the project will contribute benefits in terms of the basis for future increased property tax revenues for the central government and municipalities and provide a better framework to establish incentives for improved land use management practices.

Risks: Institutional capacity is a crucial element, as the multi-agency coordination of the entities responsible for the national cadastre, property registry, municipal government and agrarian reform and environmental management will all be required, as well as a very significant increase in the magnitude of demand for the services of each of these land administration entities.

The benefits of the Project depend on the continued maintenance of the cadastre and registry; necessary, among other purposes, for the improvement of the tax collection regime, municipal planning, delivery of basic public services and many other public and private activities. If, after the initial titling of the new areas there are subsequent transactions, which are not registered, the result will be a loss of confidence in the cadastre and registry, and the need to repeat the cadastre effort in the future, with the costs entailed.

The Project depends on the sound technical design and sequencing of the implementation of the PRONAT, including critical aspects of legal and institutional reform. To address each of these issues, it has been necessary to identify activities and design features, which are critical to the successful implementation of the Project and include them as part of the annual review process to ensure that adequate progress is achieved each year.

A final issue derives from the nature of the public assets, which are to be transferred to private ownership in the PRONAT. The market-based approach to land transactions can potentially result in first time landowners selling their land and quickly spending the proceeds, with the effect that they become landless peasants (or urban migrants). The Project Team has discussed this concern with the Government of Panama and agreed to address the issue through the land market support activity component in the proposed loan.

**Special
contractual
clauses:**

Conditions precedent to first disbursement

- (a) Contracting of the incremental staff for Project Implementation Unit and selection of Technical Coordinator and International Technical Advisor (see paragraph 3.8).
- (b) Evidence that the Program Operating Regulations have been

approved by the General Coordinator of PRONAT and have come into effect in the same terms and conditions as accorded with the Bank.

- (c) Evidence that the Executor Agency has contracted the services of PNUD in accordance with the terms and conditions previously agreed with the Bank.
- (d) Evidence that the Executor Agency has signed agreements with the co-executors agencies establishing their responsibilities in the execution of the Project.

Special Conditions for the disbursement of Component 2

- (a) Evidence that PRONAT has i) approved the technical specifications required for information to be entered into the cadastre and property registry, and ii) the Provisional System for Cadastre and Land Registry Maintenance has been fully staffed and equipped (see paragraph 3.12).

Special Condition

Although the conditions prior to effectiveness have not been completed, the Bank may disburse up to US\$250,000 to initiate the activities in the Project, as long as the conditions established in the General Terms of the loan contract have been accomplished.

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704).

Furthermore, this operation qualifies as Poverty Targeted Investment (PTI).

Exceptions to Bank policy:

See acquisitions and reimbursement of expenditures.

Retroactive Financing:

As established by OP-504 the Bank will recognize retroactive financing from the loan up to the amount of approximately US\$250,000 for reimbursement of expenditures. These expenditures shall have occurred prior to the date of loan approval but after the 12th of July, 2002, and have satisfied conditions similar to those established in the loan contract.

As established in OP-504 the Bank may recognize retroactive financing from local counterpart funds up to the amount of approximately US\$200,000 for reimbursement of expenditures. These expenditures should have occurred before the date of approval of the loan, but after the 19th of July, 2001, and have satisfied conditions similar to those established in the loan contract.

Procurement:

Acquisition of good and related services and contracting of civil works financed with the project resources will be subject to Bank's procurement

procedures and policies.

International public bidding will be required for the acquisition of goods and related services when equal or exceeds US\$200,000, for works, which are equal or exceed US\$1,000,000 and for consulting services, which are equal or exceed US\$200,000. All bidding under the set of these limits will be done following national legislation when its provisions do not contravene the Bank's procurement and procedures policies.

As an exception to the international public bidding procedure and accordingly with GS-311 it is recommended the direct contracting of the PNUD to administer the funds to be executed in the project (see paragraph 3.18).

I. FRAME OF REFERENCE

A. Land and property rights in Panama

- 1.1 The land use and tenure regime in Panama is the result of historical patterns of social and economic development. Notwithstanding the historical importance of trade and commerce, as in the rest of Latin America and the Caribbean, there is a high concentration of private land ownership as evidenced by a relatively small number of large scale, extensive agricultural and livestock holdings. In contrast, the majority of the population of Panama occupies small parcels of land owned by the national government (whether land occupied for past generations or land acquired by the State for agrarian reform purposes) and enjoys possession rights, but does not have legal titles. According to the 2000 census, over 60% of parcels in rural areas (representing 65.8% of land in production) lack formal title.
- 1.2 Although legislation allows the regularization of informal property rights, in practice this process suffers from a number of problems. The lack of institutional capacity, inconsistency in existing legislation, an inefficient and highly centralized bureaucracy, as well as duplication of procedures and unclear norms, result in great difficulty in achieving regularization of land titles. The public institutions responsible for land titling, regularization and administration in Panama include the Ministry of Agricultural Development (MIDA), the Public Registry (PR), the Directorate of Cadastre and Patrimony (DCBP), and the Municipalities. These institutions, as established in their respective charters, have the functions of participating directly or indirectly in the process of regulation of use, adjudication, oversight, valuation, cadastre, and registry of urban and rural properties throughout the country.
- 1.3 There is also significant overlap and apparent contradiction between aspects of the General Environmental Law, the Forest Legislation and the Agrarian Code. The former is designed to bring natural forests and state-owned forest plantations within the protective purview of the Panamanian state as part of the “Patrimonio Forestal del Estado” for conservation and rational use. The latter is designed to adjudicate land in rural areas to eligible possessors who utilize it in a manner that fulfills the “social function” of the land, defined as having at least two thirds of the occupied parcel used as pasture, cultivated with crops or industrial grade timber trees, or converted to urban uses. The Agrarian Code places limitations on the adjudication of and establishes conservation requirements for forest reserve zones. Nevertheless, historically, land clearing has been used to demonstrate possession and “social use.”
- 1.4 Payment for the cost of the land, and the fees collected in the titling process, are an additional barrier. The lengthy time period required for mapping, field cadastre and registry are a further disincentive to title regularization. Finally, regularization of property rights is also perceived as likely to result in taxes and other actions by the State adverse to the informal occupants’ use of the land. These difficulties associated with the formal titling process, and widely accepted social and cultural norms that accept informal property rights, contribute to the maintenance of the status quo, characterized by the prevalence of informal property rights.

- 1.5 As Panama seeks to participate in the opportunities presented by the globalization of world trade in goods and services, the widespread existence of informal tenure, particularly in the country's secondary cities, small towns, and rural areas (urban, peri-urban and rural areas), represents a significant impediment to investment and national development. The regularization of informal land holdings, and the modernization of the land registry and cadastre and complementary services, can bring significant benefits by contributing to greater productive investment, improved access to credit, increased labor mobility, and a more dynamic land market.
- 1.6 Improved land tenure security and land administration systems are also of critical importance in terms of conservation and sustainable management of natural resources, as in the case of watersheds, coastal zone management, and biodiversity conservation. In social terms, the lack of formal title to land holdings is a factor which limits low-income citizens access to an important economic asset, as well as to public services such as potable water and electricity. A modern land administration system can also provide a diverse set of benefits through: (i) improving the planning, design and implementation of government services at both the national and municipal levels; and (ii) a better basis for identifying, analyzing and successfully implementing private investment decisions and (iii) a platform for the establishment and management of land use regulation and incentive systems.
- 1.7 Beginning in the mid-1990's, with the assistance of the Bank, the Government of Panama began to address these issues in the area of land regularization and administration. One important result was the approval of a pilot land regularization component in the Modernization of Agricultural Services (924/OC-PN) sector investment loan, approved on March 18, 1996. The loan, in the amount of US\$33.6 million, included components in: (i) Technology Generation and Transfer; (ii) Animal Health and Sanitation; (iii) Market Information and (iv) Land Titling. To date, only 80% of the total loan amount has been disbursed, reflecting difficulty in execution due to excessive centralization of the administration of the other components.
- 1.8 However, the land-titling component has not had this difficulty, and is classified as Highly Successful in the Bank's Project Performance Monitoring System. The pilot project, implemented in the Province of Veraguas, utilized modern field cadastre techniques based on satellite based global positioning systems, as well as a decentralized implementation unit, and the external contracting of technical preparatory work required for land title preparation. With these advances in the technical and institutional methodology, the pilot demonstrated that it was possible to dramatically increase the number of hectares and land parcels which could be cadastred, as well as reduce the average unit cost of this activity. An additional benefit was the parallel process of mediation and conflict resolution, which was effective in resolving disputes over title and property boundaries at the local level.
- 1.9 Although over 800,000 hectares and 70,000 parcels have been included in the cadaster implemented under this loan, to date, less than 10,000 titles have been registered and thereby regularized, primarily because the beneficiaries have not made payment for the land as required by law. Also, while not considered within the scope of the original

project design, the lack of integration of the cadastre conducted by the Directorate of Agrarian Reform (DINRA) to the national cadastre is a limitation of the project because is not integrated into the land administration system. Both of these concerns were raised with the Government of Panama during the design of the new project as issues that must be addressed prior to the Bank's financing for PRONAT to undertake additional titling activities.

- 1.10 The success of the Bank's Veraguas pilot project suggested that this methodology, which had been demonstrated to be technically viable, and cost effective, could now be expanded to a national program for land regularization. However, expanding the scope of the pilot project in Veraguas to a national program would require a more comprehensive approach to land administration and policy in Panama. As a result, in 1999 the Government of Panama created the *Programa Nacional de Administración de Tierras* (PRONAT).

B. The National Land Administration Program (PRONAT)

- 1.11 The PRONAT, developed with the assistance of the World Bank, will expand support of land regularization to the national level, contribute to the development of a modern national cadastre and registry, including the decentralization of services to the provincial and municipal levels. The program will also provide the overall policy, legal and institutional framework to address the Government's objectives and to ensure that there is adequate capacity on the part of the relevant entities and organizations to implement project activities in the short run and to deliver land administration services in the long run. The PRONAT will support land regularization activities in an area of two and a half million hectares, including several national parks, protected areas and indigenous reserves, known in the Panama as "Comarcas".
- 1.12 The PRONAT faces three challenges:
 - a. Establishing a nation-wide land administration framework that is modern in its institutional, technical and legal aspects.
 - b. Implementing a streamlined, participatory, and systematic large scale land regularization methodology that will permit the entire country to move gradually from an antiquated land titling process and an unsecured and outdated land tenure inventory to an up-to-date, secure and comprehensive parcel based registry.
 - c. Providing the necessary technical assistance and technological transfer to responsible agencies and municipalities, encouraging strategic alliances with private surveyors and local legal offices that will strengthen local execution capacity. In this effort, the Project will set up a computerized integrated cadastral-registry information system (SIICAR). This system will provide easily accessible services to all users, including local governments and local beneficiaries, and it will facilitate the sustainable maintenance of geographic and legal information.
- 1.13 Upon the completion of the PRONAT, Panama will have achieved a major advance in the modernization of the country's land administration services. The institutional and legal

reforms to be implemented during the program, and the operational experience gained during the massive regularization effort will establish a sound basis for future land regularization activities. In addition, the creation of an integrated system of land registry and legal cadastre information will increase public use of land administration services and improve tenure security at the national, regional and local levels. As in other countries, which have implemented similar programs, the financial sustainability of the modernized land administration services will result from the expanded user base, and significant improvements in quality and quantity of land information available, which can generate increased government revenues. Formalization and public access to up-to-date information on property rights and land use are important elements of the governance framework of modern economies. The program is, therefore, an important step in of the modernization of the state in Panama.

- 1.14 While it is expected that PRONAT will eventually be financed by a number of sources, to date, the PRONAT is principally financed by the World Bank, with a loan approved in January 2001 for US\$47.9 million, as well as approximately US\$4.2 million of local funding. The World Bank financed project includes three components: (i) Land Policy, Legal and Institutional Framework, (ii) Land Regularization Services; and (iii) Consolidation of Protected Areas and Indigenous Territories. The World Bank financed project is national in scope with respect to the institutional strengthening and modernization of land registry and cadastre services. The title regularization activities in the World Bank project will be executed exclusively in the Provinces of Chiriqui and Bocas del Toro. The World Bank will also finance tenure regularization activities of PRONAT in protected areas and indigenous reserves throughout Panama (i.e., inside as well as outside of Chiriqui and Bocas del Toro).
- 1.15 To date the World Bank financed project has (i) supported PRONAT in the strengthening of the UCP, (ii) prepared the POA for the first year of the project, (iii) contracted the design of the SIICAR, and (iv) initiated a pilot regularization in the area of Portobelo to identify the adequacy of procedures to be used in rural, urban and protected areas. In the near future, the first contract for land regularization services (in Chiriqui) will be distributed. Selection and contracting of the international technical advisor is also well advanced.
- 1.16 The government requested the IDB's participation in PRONAT in mid-2000, with the objective of securing financing to expand PRONAT's land tenure regularization activities to include the Provinces of Herrera, Los Santos, Veraguas, Cocle and Colon. As a result, under PRONAT's overall technical and institutional coordination, and with parallel financing from the IDB and World Bank, the Government of Panama proposes to move forward with a massive land regularization campaign (see Annex II IDB and World Bank Project Activities).

C. The legal and institutional context for land administration

- 1.17 The current land administration system in Panama is characterized by a complex and inefficient institutional and legal framework, as well as by slow and inefficient procedures for land regularization. Different legal instruments establish competency and

jurisdiction to various different public entities, which lack mechanisms for coordination and sharing of information. The result has been to generate different requirements and procedures to solve similar problems, with the result that citizens often are uncertain about which procedures should be followed to secure their property rights.

- 1.18 At the current time there is no direct and ready connection between the titles in the Public Registry and the maps approved by the Cadastre, with the result that there are a series of problems with titles, such as double inscriptions, overlap of boundaries and indeterminate boundaries. The inscription of titles of property in the Public Registry, while required to create and transfer title according to the Civil Code, and protect the property from claims by third parties, is not obligatory for the owner. In many cases, the obligation to pay property taxes once the property is titled, acts as a disincentive to title regularization.
- 1.19 Land conflict resolution is an activity with responsibilities and authorities dispersed principally with the Directorate of Agrarian Reform, the Directorate of Cadastre and the courts of the Civil Court, and the Appeals Court of the Supreme Court. It is often the case that those who are responsible for resolving these cases are not versed in the special issues which arise in these cases, with the result that procedures are long, bureaucratic and costly, and so prejudice the uses and act as a disincentive to investment in land.
- 1.20 **Public Registry.** The Public Registry has recently become an autonomous agency. This institutional autonomy, by increasing the transparency of service costs and decentralization of the decision-making process, will assist the Registry in establishing effective cost control systems and providing an objective basis for determining fee-for-service rates as well as decentralized services provision. this institution will play a key role in the process of land regularization and the maintenance of cadastral information.
- 1.21 In 1998, using national financing, the Registry initiated a modernization program (*Proyecto de Modernización del Registro Público*) which proposes to improve services by computerizing all existing registry data and capturing all incoming data in digital format. However, this modernization program does not address a number of issues considered to be crucial for the development of an effective land administration system, including the integration of cadastral data with that of the registry records, incorporating a geographical data base; and increasing the capacity to validate and update registry data corresponding to rural and urban land parcels. The Program proposes to assure the integration of the two forms of data through the design, development and implementation of the SIICAR that would permit direct access to parcel legal data as well as to its geo-referenced graphic description. This would not necessarily require a merger between Registry and Cadastre entities; it would require, however, procedures for system users, such as sequential certification, that require congruence between registry and cadastral information before finalizing any new registrations or changes to existing ones, the adequate and permanent exchange of information between the two entities, and the access to the same data base. In addition, the Project will update and validate existing registry land records by means of the proposed updated cadastre and legal land regularization processes.

- 1.22 **General Directorate of Cadastre and Patrimony (DCBP).** The DCBP under the Ministry of Economic and Finance (MEF) is responsible for the cadastre of the national territory, although in practice it focuses on fiscal aspects of the cadastre. The DCBP is presently a Department within the MEF. Under the same Ministry of Economy and Finance, there is another Department of Fiscal Cadastre in charge of land valuation and taxation regimes. Contrary to what happens in other countries, DCBP has also the responsibility to authorize rentals and sales of plots under 1,000 square meters, and to administer some state-owned lands in rural areas. These responsibilities include transferring land to growing and new population centers represented by Municipalities, for final adjudication to individual first-time owners. The current technical capacity of this entity is limited by budgetary constraints and by a lack of qualified human resources. This emphasizes the need to ensure improvements in the DCBP that go hand in hand with its assigned functions under new national policies and the comprehensive approach of the proposed Program.
- 1.23 **Directorate of Agrarian Reform (MIDA/DINRA),** under MIDA is responsible for agrarian policies through DINRA, which administers rural land in Panama. DINRA currently executes the titling pilot in Veraguas Province, which includes field surveys and titling and is being carried out in state-owned lands only (agrarian reform lands).
- 1.24 Even though DINRA has administrative offices in the field, the provision of land-related services is highly concentrated and centralized in the Provinces of Veraguas and Panama because of: (i) complicated and time consuming procedures; (ii) lack of technical capacity to advance from the artisan (one by one) stage to an industrial one (large-scale regularization and titling process); and (iii) serious budgetary constraints which are also reflected in its low performance standards (e.g., an average of 1,500 issued titles per year). PRONAT, with World Bank financing, will finance the simplification of the legal and technical procedures, adequate training of DINRA personnel, and the institutional re-engineering of DINRA in order to avoid existing bottlenecks. These activities will be linked to reforms in the Agrarian Code, and to a better delimitation of functions between the DINRA and the DCBP with respect to land adjudication and regularization, on the one hand, and the DINRA and the judicial system with respect to jurisdiction over land disputes, on the other.
- 1.25 **National Authority for the Environment (ANAM).** ANAM is relevant to the Program because of its role in administering the protected areas system, and monitoring and promoting improved land use practices and management of related natural resources, such as water and forests, among others. In addition, ANAM is the executing agency of the Mesoamerican Biological Corridor (MBC) Project. Recently it concluded a process of restructuring and has become an autonomous institution. In the framework of the Program, ANAM, Catastro and DINRA will coordinate activities designed to respond to: (i) demand for conditional titling in the protected areas by occupants before the cut-off-date; (ii) demand for conditioned titling and clarification of rights in buffer zones; (iii) physical demarcation of protected areas; (iv) zoning and classification of actual land use; (v) municipal education and strengthening for enforcement of land use regulations; and (vi) titling and demarcation of indigenous territories; (vii) regulatory improvements in the land adjudication and administration systems; (viii) environmentally sound

management, concession and disposition of state lands, particularly in fragile areas, according to scientifically sound management plans; and (ix) monitoring of forest conservation and management. The institutional capacity of ANAM is growing, but is still inadequate relative to the responsibilities that it has to face.

- 1.26 **Geographic Institute (Instituto Geográfico "Tommy Guardia").** The Institute is under the Ministry Public Works and has the responsibility for geographic and topographic operations, geographic information systems (GIS), photometry and others of similar character; cartographic base and establishment (technical norms related to the issues mentioned above at the national level. This institution is also important because it has a legal responsibility to represent the Government of Panama on technical issues related to cartographic and geographical works. At present, the Institute suffers critical equipment and training needs, which will be supported to the degree necessary for the projects success with World Bank funds.
- 1.27 **Directorate of Local Governments and Municipalities.** The DGL is under the Ministry of Government and Justice and has the responsibility of the overall coordination with the municipalities. The role and responsibilities of municipal governments is currently the subject of discussion in Panama. Proposed legislation would significantly increase their powers and provide the ability to collect and spend revenues at the local level. If the proposed changes are implemented, municipalities will also assume a far more important role in determining land use towards a developing a coherent planning system within their boundaries. The Program is expected to constitute a vehicle to strengthen the municipalities through the cadastre, land titling, and registration services. It is also to provide significant support to the decentralization process, by facilitating land titling within *ejidos municipales* and by supplying integrated cadastral and registry data that will be an essential tool not only for land tax collection but also for the drafting of master development plans, and land-use classification and planning in general. Participating municipalities will also receive training, information and guidance on environmental issues, including preliminary management plans for critical areas, land use recommendations, physical ejido limits that take into account conservation of agricultural an forest lands, and custodial ownership of urban green areas.
- 1.28 **Experience of the Bank and other Donors.** The proposed loan further advances support for land administration programs based on experiences in policy reform, technical design, institutional improvement and human resource strengthening. The IDB has a growing portfolio of land administration projects, and is currently financing about a dozen projects in Latin America and the Caribbean with land related components. The Bank's growing international experience will allow for sound recommendations on the most appropriate, legal, institutional and technical actions required to achieve project objectives.
- 1.29 Most notably in Panama, the Bank is currently financing the Agricultural Services Modernization Program (Loan 924/OC-PN), with a Sub-program of Land Titling including components in: (i) cadastral mapping; (ii) titling of national lands; and (iii) institutional strengthening. The subprogram included seven districts of the Province of Veraguas and covered 458,000 hectares, or 39,000 rural land parcels, with a total investment of US\$4.5 million. Due to the success of the subprogram, it was possible to

subsequently almost duplicate the original scope of the program by expanding coverage to an additional 400,000 hectares and include a total of 70,000 parcels. A MIF project to support alternative methods of conflict resolution, through the resolution of land tenure conflicts, has contributed to the success of the land-titling project. Notwithstanding this positive experience, it should be noted that the existing project has not established a sustainable mechanism for recovery of the costs of the titling process. There is a serious backlog of titles that have not been included in the Land Registry, nor incorporated into the National Cadastre.

- 1.30 The Project Team discussed these issues with the Government during the project identification stage. Following almost a year of technical support to PRONAT, during the appraisal mission, the Bank evaluated the GOP's progress in addressing three key issues with the Government: (i) payment for land as a requirement for titling of national lands, (ii) measures to ensure that new titles issued would be registered in the Property Registry, and (iii) the requirement that cadastre and title information be integrated in a modern land information system. During loan negotiations it was agreed that the Government would provide evidence of compliance with the first two of the abovementioned issues (payment for land, formal title registration) when disbursement of funds from the second loan component are requested. In practice, this procedure, intended to ensure the completion of the land title formalization process, will require an increase in the Project's Rotating Fund to up to 10% of loan resources to facilitate the contracting of the consulting firm responsible for the cadastre. With regard to the third issue, the SIICAR, the progress made since June 2001 in developing a provisional system for the dynamic maintenance of the cadastre and registry demonstrated that with additional staff, and procurement of necessary hardware and software, it was possible to update the cadaster and registry with new titles, as required by the land regularization component.

D. The country's sector strategy

- 1.31 The Government of Panama's development strategy is outlined in the document *Política y Estrategia de Desarrollo Social 2000-2004*. The strategy outlines as general objectives and goals the support of sustainable development, through the systematic and lasting reduction of poverty, the integration of excluded groups, and a more equitable distribution of wealth. The elements of the strategy to achieve this objective are: (i) generation of more and better employment opportunities; (ii) improved access to basic social services; (iii) increased social participation, and decentralization of social services; and (iv) the financial and institutional sustainability of the strategy. For the rural areas, the government, with extensive participation of the private sector and Civil Society, has prepared a strategy titled *Plan Panamá Rural 2001 – 2004*. The Plan develops three main strategic objectives including: (i) increasing the competitiveness of rural productive activities (both agricultural and non-agricultural); (ii) improving equity in rural areas; and (iii) developing a new institutional role for the public and private sectors.

E. The Bank's sector strategy

- 1.32 The Eighth Replenishment of the Bank identifies as a high priority the modernization and efficiency of public services, including elements such as technological innovation, public

sector reform, and strengthening municipal government. The Bank's strategy in Panama is consistent with this agenda, and prioritizes: (i) improving the conditions for competitiveness; (ii) environmental sustainability, and (iii) strengthening governance and transparency. The Government of Panama's Program to improve land use with the accompanying land regularization and institutional modernization is consistent with the objectives of the Bank's strategy. In addition, improvements in the land use regime are an important part of the Bank's support for a more dynamic rural economy, and are also directly related to strengthening the capabilities of municipal government.

II. THE PROGRAM

A. Objectives and description

- 2.1 The objective of the Project is to promote land tenure security in order to facilitate access to credit and land investment aimed at economic growth. The loan would complete and extend the Program already partially financed by the World Bank and would expand PRONAT's geographic coverage, and strengthen the institutional and technical capability of the entities responsible for land titling and administration in Panama. The Project will be implemented in the rural, peri-urban and urban areas of the Provinces of Herrera, Los Santos, Veraguas, Cocle and Colón, and other areas as may be designated by the government.
- 2.2 The expected results of the Project, to be monitored during execution will be: (i) increased use of land as collateral for credit; (ii) increased long term investment in the productive capacity of land; (iii) a more dynamic land market with a greater number of land transactions; (iv) a more transparent, flexible and efficient process for completing land transactions; and (v) *ceteris paribus*, higher land prices, reflecting the expectation of higher revenues as a result of establishing formal land titles. As a complementary objective, the Project seeks to promote the integration of environmental procedures, criteria and tools in the land adjudication and administration system. (See Logical Framework in Annex I).

B. Program structure

- 2.3 The proposed Project will finance three components, including: (i) Modernization of National and Municipal Land Administration Services; (ii) Land Regularization Services; and (iii) Land Markets and Local Economic Development. These components were identified with the intent of supporting the Government of Panama's objectives and implementation process, while ensuring that the proposed Project will be viable as a freestanding, independent activity under the PRONAT framework.

1. Component 1: Modernization of National and Municipal Land Administration Services (US\$1,275,000)

- 2.4 The focus of this component is to provide the legal and institutional framework for the implementation of the PRONAT initiative during the execution of the Program, and to promote medium term reforms that will contribute to the sustainability of the system. The IDB sub-components include: (i) support for reforms to the Agrarian Code and other land right and use laws and regulations; (ii) feasibility studies for the maintenance of the national cadastre; and (iii) a pilot project for property regularization in coastal zones. These activities would complement the institutional strengthening financed under the World Bank loan, which include: (i) the design and implementation of a modern land registry and cadastre system; (ii) institutional strengthening at the national level of the entities responsible for land regularization and tenure security; and (iii) strengthening and expanding access to regional and local land administration services. These activities, financed respectively by the IDB and World Bank, are a necessary and integral part of

PRONAT, will support the execution of the massive regularization campaign (see Component 2).

- 2.5 A major objective of the project is the development of a system to achieve the computerized integration of the registry and legal cadastre data (SIICAR). The SIICAR, whose design and implementation is being wholly financed by the World Bank loan and will serve as counterpart funding for the IDB financing, will be the principal mechanism to guarantee the permanent and necessary interaction of cadastral data with the registry information (land title or deed) for a complete description of the legal and physical situation of any land parcel. The system will also facilitate the maintenance of cadastral and registry information and make possible the distribution and easy access of integrated information on land status, conveyances and parcel modifications. These capabilities will be available at the national, regional and local levels.
- 2.6 Until such time as the SIICAR is fully implemented and operational, the Bank will finance a provisional system for the dynamic maintenance of the cadastre and registry. This provisional system has been developed during project preparation, and will permit land regularization activities to be initiated in the geographic areas designated for IDB financing, prior to implementation of the SIICAR. Support for this provisional system will ensure that cadastre and property registry information are maintained and updated on a continuous basis when the full SIICAR is implemented, the records in the provisional system can automatically be emigrated to the new national integrated land administration system.
- 2.7 The World Bank loan will also provide for the necessary institutional strengthening activities of the following entities at the national level: the National Directorate of Agrarian Reform of the Ministry of Agrarian Development, the General Directorate of Cadastre and Patrimony under the Ministry of Economic and Finance (MEF), the Public Registry and the National Environment Authority. Resources will be allocated to support improvements in physical infrastructure, upgrading of equipment, incremental personnel requirements, training and specialized consulting services.
- 2.8 The IDB will participate, at the technical level, in the preparation, design and implementation of the SIICAR. The COF specialists and supervision missions from headquarters attendance at meetings of the CTO on a periodic basis will facilitate monitoring during supervision.
- 2.9 **Sub-Component: Legal Reform of the Agrarian Legislation and other land use and rights laws and regulations.** This sub-component will finance (i) studies; (ii) seminars; and (iii) the implementation of institutional reforms to improve the efficiency and effectiveness of agrarian and land administration regulations approved by the CTO and Superior Council. Complementary legal reforms may be proposed as a result of this process. Areas of study will cover:
 - a. Regulatory and administrative reforms to institutionalize the improved procedures for resolution of land disputes through alternative methods and interim land tribunals under the purview of the Judiciary and to resolve this kind of

controversies as well as addressing the need to provide legal assistance to low-income landowners.

- b. Regulations to enable Cadastre and Registry to annotate titles when discrepancies and inconsistencies are discovered in the course of routine surveys and land information system maintenance. This should be accompanied by appropriate limitations and by notification requirements and expeditious rectification procedures.
- c. The design of mechanisms to promote the active participation of women in regularization programs and their equal access to title as provided by law. This is an education and dissemination issue as Panamanian law establishes equal access, but available data shows that women tend to be under-represented in the title holding population. Criteria to demonstrate possession in rural areas may also need to be revised.
- d. Delimitation of competencies between agencies to avoid duplication and streamline work. This includes clarifying the scope of administrative and judicial jurisdictions, as well as between local and national authorities in general, and administrative and traditional authorities in indigenous areas (“comarcas”).
- e. Review, simplification, regulation and reform of the Agrarian Code to eliminate provisions that have fallen into disuse, update concepts and definitions to make them compatible with current practices and more recent Panamanian laws, and improve the functional delimitation between MIDA and MEF with respect to land policy and administration in rural areas. This will include, among other things: (1) addressing the interpretation of “social function of the land” to ensure its relevance and its compatibility with the National Environmental Law; (2) eliminating DINRA functions that overlap with the jurisdiction of other agencies; (3) issues related to right of ways on national lands; (4) providing an effective support to local authorities in the development and implementation of management plans; (5) providing guidance and alternative dispute resolution mechanisms for small producers and other rural owners, etc.
- f. Regulation of the Municipal activities in the areas of land valuation and adjudication to promote technical soundness, transparency, adequate techniques, equity, consistency, market relevance and sustainable management of land and associated natural resources. Coordination with ANAM, MIVI and MIDA, use of conditions for land adjudication by Cadastre, and mechanisms for community participation should be addressed.
- g. Land policy issues of specialized or strategic nature, such as: land valuation and assessment, tax policy, payment for environmental services, collective land holdings (internal cadastres, investment support, co-management, use of trust instruments, equitable interest recognition, etc.), water and forest rights, concession letting, administration, regulation and supervision.

- 2.10 **Sub-Component: Maintenance of the National Cadastre.** This component will finance the process of evaluating the feasibility and implementing a mechanism to insure the maintenance of the cadaster. Activities to be financed include: (i) study tours to review similar experiences in other countries (ii) preparatory studies (legal, financial, economic, technical, institutional); (iii) establishment of a data bank; (iv) development of appropriate regulations for the supervision of private contractors; and (v) training for the DCBP in a new regulatory role.
- 2.11 **Sub-Component: Coastal Zone Regularization.** To achieve the benefits of regularization of land parcels for those possessing land in coastal areas which cannot be titled under the Constitution and existing legal framework, this activity will finance a pilot project to facilitate the titling under an “administrative concession” of land held by inhabitants in a designated area. Implementing this activity successfully can both redress the negative impacts on the patrimony and productive activities of inhabitants and investors living in coastal areas, but also allow them to be brought under the public sectors fiscal accountability and environmental management, as a result of the recognition of these rights. Activities to be financed in this sub-component include; (i) legal analysis of the concession and existing legislation pertaining to land use and ownership in coastal zone areas, including (a) the need to regulate land use in the 22 m and in the 200 m zones to assure sustainable management; (b) regulations to facilitate zoning and restrictive titling; (c) regulations to assure the equitable treatment of squatters in coastal areas; (ii) consultations with stakeholders; (iii) development of concession framework, including the preparation of regulations for administration concessions including a model contract, environmental impact evaluation and licensing requirements; (iv) activities and management plan and regularization of the pilot area; (v) analysis and dissemination of results of the pilot; and (vi) design of a project that expands upon the experience of the pilot and is the basis for future regularization of coastal zones in the country.

2. Component 2. Land Regularization Services (US\$23,565,000)

- 2.12 This component provides the necessary support to execute the technical and legal fieldwork required to carry out the massive land regularization process within the project areas (see Map). Regularization services include cadastre, titling or certification, registry of properties and conflict resolution. This component will also establish alternate conflict resolution mechanisms that will be available throughout the execution of the fieldwork, and will establish the basis for a more effective dispute resolution system for land cases. This will be needed as land use management norms are more actively enforced, the number of transactions grows, and market dynamics continue to require the adjudication of competing rights between private parties and the resolution of issues related to competing private and public interests. Training will be provided to internalize conflict resolution capabilities in the various entities of both the executive and judicial branches responsible for land administration and dispute resolution, especially at the local level.
- 2.13 The Project will finance the regularization of land in rural, peri-urban and urban areas of the Provinces of Herrera, Los Santos, Veraguas, Cocle, and Colon and other areas that the Government may designate in the future. The total area and number of titles to be

included in the project area is approximately 750,000 hectares, representing an estimated 120,000 new titles, compared to the 69,000 titles existing at present in the same area. Of this total, 85,000 represent new titles in rural areas, while 35,000 titles would be issued in peri-urban and urban areas. The Project area consists initially of 31 municipalities and 173 urban ejidos (including the legal formation of 81 new ejidos), as well as 416 rural villages.

- 2.14 The following six sub-components will finance delivering land regularization services throughout the project area, including: (i) cadastral field surveys and titling process; (ii) updating the existing cadastre and registry with outstanding titles; (iii) definition and formalization of rural municipalities (*ejidos municipales*) and subsequent individual adjudication and titling; (iv) support for conflict resolution mechanisms, as part of the field teams and through judicial and administrative specialized training; (v) environmental field studies and related training and dissemination; and (vi) provision for the maintenance of the new registry and cadastre information to be generated, and its subsequent migration to the new modernized land administration system (SIICAR). In addition, the project will support the establishment of temporary land tribunals in the project execution area, and studies to be conducted to identify means to modify legal procedures in the civil courts. For that purpose the Executor Agency will sign with the *Corte Suprema* an agreement for the establishment of such tribunals.
- 2.15 Land regularization activities in the Project entail cadastral surveying, land adjudication, land tilting and registry through a gradual and systematic area-based methodology with two main steps. The first step consists in property-by-property cadastral surveys to identify rights or claims attached to each parcel and to measure and delimit these parcels, including a public notice process. The second step consists of adjudication, titling and registration process. Highly participatory conflict resolution mechanisms will be accessible throughout the cadastre survey and adjudication process. Cadastral and registry information will be integrated into the SIICAR and will be made available to end-users. The procedures to be utilized, including the agencies responsible for each activity to be undertaken, and the method of execution (direct or by contract) are identified in greater detail for rural, peri-urban and urban areas in the operating manuals for rural and urban areas.
- 2.16 The project technical design focuses on streamlining and standardizing the regularization process, and to maximize the use of new technology to reduce costs and speed up the process. Project Operational Manuals, which have already been prepared and are currently being tested in a pilot project in Portobelo, will describe a unique land regularization methodology for rural, urban, protected and indigenous areas. These Operational Manuals have been approved by the Technical Operational Committee (TOC) and will require the Bank's no objection to ensure their consistency with the new IDB financing. The TOC will also: (i) determine national technical standards; (ii) verify unique methodology implementation; and (iii) review, re-engineer and optimize technical activities throughout the project.
- 2.17 The Project will be executed by contracting out packages of regularization areas to qualified private contractors. To accommodate the rapidly changing innovations in

technology, technical specifications will be flexible enough to capture the benefits of the more advanced, cheaper and faster technology as it evolves. Strong quality control and quality assurance mechanisms will be put in place and will be required in each contract. National and international firms participating in project bidding will be asked to incorporate quality control measures in their technical proposals.

2.18 Additionally, the project has taken four specific measures to improve production management:

- a. Mapping and cadastral surveys will be contracted out to companies with international experience, equipped with the necessary technologies and specialized in large contract management. They will team up with national surveying and legal firms.
- b. The Project will hire a specialist with international experience in large-scale mapping and cadastral surveys to help local executing agencies to exercise quality control.
- c. The project team will set up a production management system to monitor and evaluate the progress of the production.
- d. At an early stage (first 12 months) of project execution, the UCP will support intensive training activities for the public and the private sectors, including private surveyors and legal experts, so the international companies may find sufficient qualified technicians to carry out labor-intensive field surveys. International firms will be requested to include local training in their proposals.

2.19 Lessons learned from other projects have underlined the difficulty related to industrial production of field surveys and land titling in large areas. Therefore, regularization activities will initially be carried out gradually. Massive production will escalate once the institutional capacity is in place and taking benefit from pilots carried out in priority areas.

3. Component 3: Land Markets and Local Economic Development (US\$2,260,000)

2.20 Evaluations of land titling projects have identified the concern that providing tenure security alone may not be sufficient to improve the economic situation of project beneficiaries. These studies suggest that measures should be taken to improve access to information, services and complementary infrastructure, each of which can contribute to improving the livelihood of the beneficiaries of land titling. Therefore, the component will support activities to assist in achieving the potential benefits of land titling in the Project area, including greater access to credit, increased investment, and improved productivity. Social and environmental objectives will similarly be addressed, including initiatives to increase the transparency in land transactions, promote gender equality in the access to land (and sale thereof), and ways to improve land conservation practices. These activities will build on and strengthen the linkages between existing projects

financed by the Bank, or other public and private sector initiatives, including, technical training and micro enterprise credit programs.

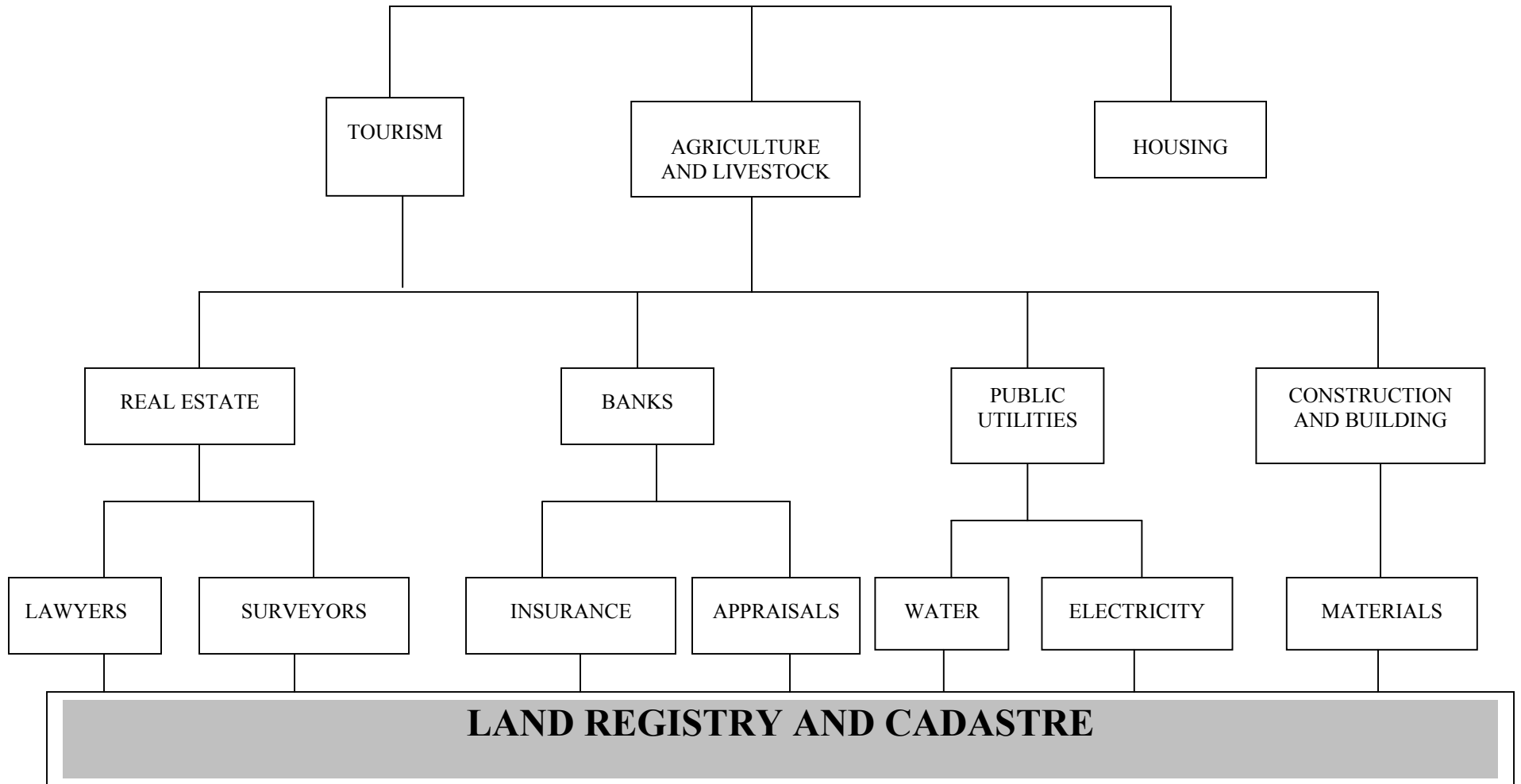
- 2.21 The project would support the following sub-components to strengthen the local economic impact of land regularization: (i) improve performance of factor markets; (ii) support development of the land market cluster; (iii) strengthen municipal governments use of land information; and (iv) implement public awareness campaigns.
- 2.22 **Sub-component: Improve factor markets (land, labor, capital, management) and factor price equalization:** The development impact of the project can be increased by leveraging the impact of property regularization through coordination with other projects that provide financial resources and technical assistance in the project area. These derivative projects can support the formation of strategic alliances to increase the economic impact, and remove restrictions facing project beneficiaries. It will be important to support the coordination between PRONAT and other projects, which are being executed in the region, such as PROMOSA (technology transfer), *Plan Panamá Rural*, *Programa Nacional de Competitividad*, and *Pobreza Rural*, as well as other projects identified by the Planning Department of MIDA. In the same token, cadastre information generated by this project will be an important input to other projects in the region.
- 2.23 The sub-component will finance the efforts of project beneficiaries to identify and participate in other on-going or future projects which can assist them in: (i) investing in the productive capacity and improving the productivity of their land (e.g. technical assistance); (ii) identifying local opportunities for off farm labor; (iii) improving access to finance and banking services; and (iv) training in management and related business skills. To these ends, the sub-component will finance the following activities: (i) training workshops on land related matters, (ii) feasibility studies for land improvements, and (iii) vouchers for labor skills training. To be eligible to receive these benefits, individual property owners would have to be part of, or form voluntary groups to receive assistance from the Project. Formation of these groups will make the activities more cost effective, and also facilitate collective action to undertake activities with greater potential benefits to the region.
- 2.24 **Sub-component: Strengthen land markets cluster:** The process of property regularization in the region entails moving from a collection of mixed formal and informal property ownership rights towards the systematic organization of the information about property ownership. Once this information is linked together and can be represented as a cadastral mosaic with formal property rights, the information it contains has great value for both public and private uses. The resulting database with information about property ownership and location will allow users to identify and rapidly evaluate land-based information for economic decision-making. Improved land information and property rights registry information can in this way provide important benefits for key economic activities in the regions, such as agriculture, forestry, and ranching, banking, tourism, commerce, and housing. Each of these economic sectors in turn depends on providers of services who work with land information as a daily part of their economic activity (lawyers, surveyors, appraisers, property developers, insurance

companies, urban planners, municipal and national authorities) (see Figure II-1). It is expected that banks, construction and building companies, real estate firms, utility companies, and other economic sectors that are part of the land and property cluster will be the potential user of the modern cadaster.

- 2.25 To support the rapid adoption and development of uses for the modernized cadastre and registry system, the subcomponent will finance; (i) guidelines for presentation of small projects; (ii) small projects for eligible beneficiaries up to the amount of US\$40,000 of loan resources. To be eligible to receive financial support from this sub-component, preference will be given to proposed activities that generate benefits that can be demonstrated to be public goods, rather than of a proprietary nature. Counterpart funding of 40% will be required for approved projects, and may consist of in-kind contributions (food, lodging, transportation).
- 2.26 **Sub-component: Municipal government:** Local government functions will be supported by facilitating improved access to a modern land information system, which provides information about land ownership and use. This information can be used for a variety of purposes, ranging from urban planning, to property tax collection to finance expansion of service and improve the supply of public services (reforestation, solid waste collection, water and sewage, letrization, watershed management, land use regulation).
- 2.27 The subcomponent will finance: (i) needs assessment of the 31 municipalities in the project area regarding land administration capabilities; (ii) competitive grants of up to US\$100,000 to municipal authorities to develop the capability to use cadaster and registry information in areas such as property taxes and valuation, urban land use planning, expansion of public infrastructure and services in newly regularized areas.
- 2.28 **Sub-Component: Public Awareness:** Participants in the seminar indicated that the public image of PRONAT has raised the fear of increased taxation, and even land expropriation. It is critical to raise the awareness of the population about the benefits of property regularization as giving the fundamental right to peaceful and unencumbered enjoyment of land possession and dominion once a title is obtained and formally registered, and as the basis for a marketable and liquid asset, improved access to credit and many other public and private service. To this end, the Project will finance public workshops and media and public dissemination about the objectives and benefits of tenure regularization.
- 2.29 **Eligibility Criterion:** Associations, municipalities, NGO's, unions, and groups of four or more individuals will be eligible to submit joint proposals for funding, provided that they: (i) demonstrate their proposal's feasibility as a function of measurable results; and (ii) attest to their capacity to jointly benefit from the activities. The guidelines for execution of the sub-components are established in the Operating Guidelines will include a special section with specific operational guidelines for the use the resources of this sub-component.
- 2.30 During project preparation it was estimated that it would be possible to: (i) train more than 6,000 producers; (ii) prepare 50 feasibility investment studies in land improvement

to establish improved linkages between land regularization and local economic development and (iii) cofinance 50 proposals for improving the use of land information for 100 firms, municipalities, associations, or groups of project beneficiaries.

Figure II-1 LAND MARKETS AND MANAGEMENT SYSTEM



- 2.31 It is expected that these activities will be implemented by different kinds of local actors in rural, peri-urban and urban areas, such as municipal governments, non-governmental organizations, and decentralized authorities. Beneficiaries are expected to be small and medium size farmers, regulated financial institutions and local businesses, urban residents, municipalities, community and local organizations, micro entrepreneurs, cooperatives.

C. Cost and financing

- 2.32 The Project has a cost estimated at US\$32 million of which the Bank would finance US\$27 million (84.4%). The counterpart funding by the government would consist basically of resources from the approved World Bank loan for the activities pertaining to development of the system for the modernization of the property registry and cadastre (SIICAR) and its implementation at the national level as well as within the geographic area of the proposed project and has a cost at US\$5 million. These activities are an integral part of the project design, and the IDB loan contract will reflect the government's obligation to finance and undertake the implementation of the SIICAR, for which it has already contracted a World Bank loan.

Consolidated Budget by Component

| Components | | IDB | Local | Total | Percentage |
|-------------|---|-------------------|------------------|-------------------|---------------|
| I. | SUPERVISION AND ADMINISTRATION | | | | |
| | a. Project Coordinating Unit (PCU) | 1,980,000 | | 1,980,000 | 6.2% |
| | b. Administrative Cost PNUD ^(a) | 802,000 | | 802,000 | 2.5% |
| | c. External Audit | 150,000 | | 150,000 | 0.5% |
| | Sub-totals | 2,932,000 | | 2,932,000 | 9.2% |
| II. | Direct Costs | | | | |
| | A. Institutional Reform | | | | |
| | A.1 Legal Reforms | 325,000 | | 325,000 | 1.0% |
| | A.2 Cadastre Maintenance Strategy | 500,000 | | 500,000 | 1.6% |
| | A.3 Coastal Zone Regularization | 450,000 | | 450,000 | 1.4% |
| | Sub-totals | 1,275,000 | | 1,275,000 | 4.0% |
| | B. Land Regularization | | | | |
| | B.1 Rural Titling | 7,500,000 | | 7,500,000 | 23.4% |
| | B.2 Urban Titling | 7,000,000 | | 7,000,000 | 21.9% |
| | B.3 TOC's Urban/Rural | 2,730,000 | | 2,730,000 | 8.5% |
| | B.4 SIICAR ^(b) | | 5,000,000 | 5,000,000 | 15.6% |
| | B.5 Provisional Cadastre and Registry System | 120,000 | | 120,000 | 0.4% |
| | B.6 Environmental and Social Management Plan | 225,000 | | 225,000 | 0.7% |
| | B.7 Conflict Resolution | 650,000 | | 650,000 | 2.0% |
| | Sub-totals | 18,225,000 | 5,000,000 | 23,225,000 | 72.6% |
| | C. Land Use and Local Economic Development | | | | |
| | C.1 Economic Restrictions | 1,200,000 | | 1,200,000 | 3.8% |
| | C.2 Land Markets Cluster | 400,000 | | 400,000 | 1.3% |
| | C.3 Municipal Government | 500,000 | | 500,000 | 1.6% |
| | C.4 Public Diffusion Campaign | 160,000 | | 160,000 | 0.5% |
| | Sub-totals | 2,260,000 | | 2,260,000 | 7.1% |
| III. | PROJECT MONITORING | 500,000 | | 500,000 | 1.6% |
| | Sub-totals | 500,000 | | 500,000 | |
| IV. | PPF | 200,000 | | 200,000 | 0.6% |
| | Sub-totals | 200,000 | | 200,000 | 0.6% |
| V. | CONTIGENCIES | 1,000,000 | | 1,000,000 | 3.1% |
| | Sub-totals | 1,000,000 | | 1,000,000 | 3.1% |
| VI. | FINANCIAL COSTS ^(c) | | | | |
| | Inspection and Oversight | 270,000 | | 270,000 | 0.8% |
| | Sub-totals | 270,000 | | 270,000 | 0.8% |
| | TOTALS | 27,000,000 | 5,000,000 | 32,000,000 | 100.0% |
| | Percentages | 84% | 16% | 100% | |
| (a) | Corresponds to the amount of the fee to be paid to PNUD for the administration of the loan resources. The amount is equivalent to 3% of the total amount to be disbursed. | | | | |
| (b) | This category is the sole local counterpart and corresponds to the total cost of the design and implementation of the SIICAR. The Government of Panama has contracted a loan with the World Bank to finance the development of this activity. | | | | |
| (c) | Interest payment and the credit commission associated with the IDB loan are not included as part of the cost of the program. These costs will be paid directly by the Borrower, as indicated by the Ministry of Economy and Finance. | | | | |

D. Financial Plan

2.33 The Bank will finance 84% of the cost of the Program, US\$27 million. The Government of Panama will participate with the local funds.

2.34 The conditions of the loan are as follows:

| | |
|----------------------|--|
| Currency | Ordinary Capital (OC) |
| Currency | U.S. Dollars from the Single Currency Facility |
| Conditions: | |
| Amortization period | 20 years |
| Grace period | 5 years |
| Disbursement Periods | 5 years maximum term |
| | 3 years minimum term |
| Interest Rate: | Variable |
| Credit Fee | 0.75% |

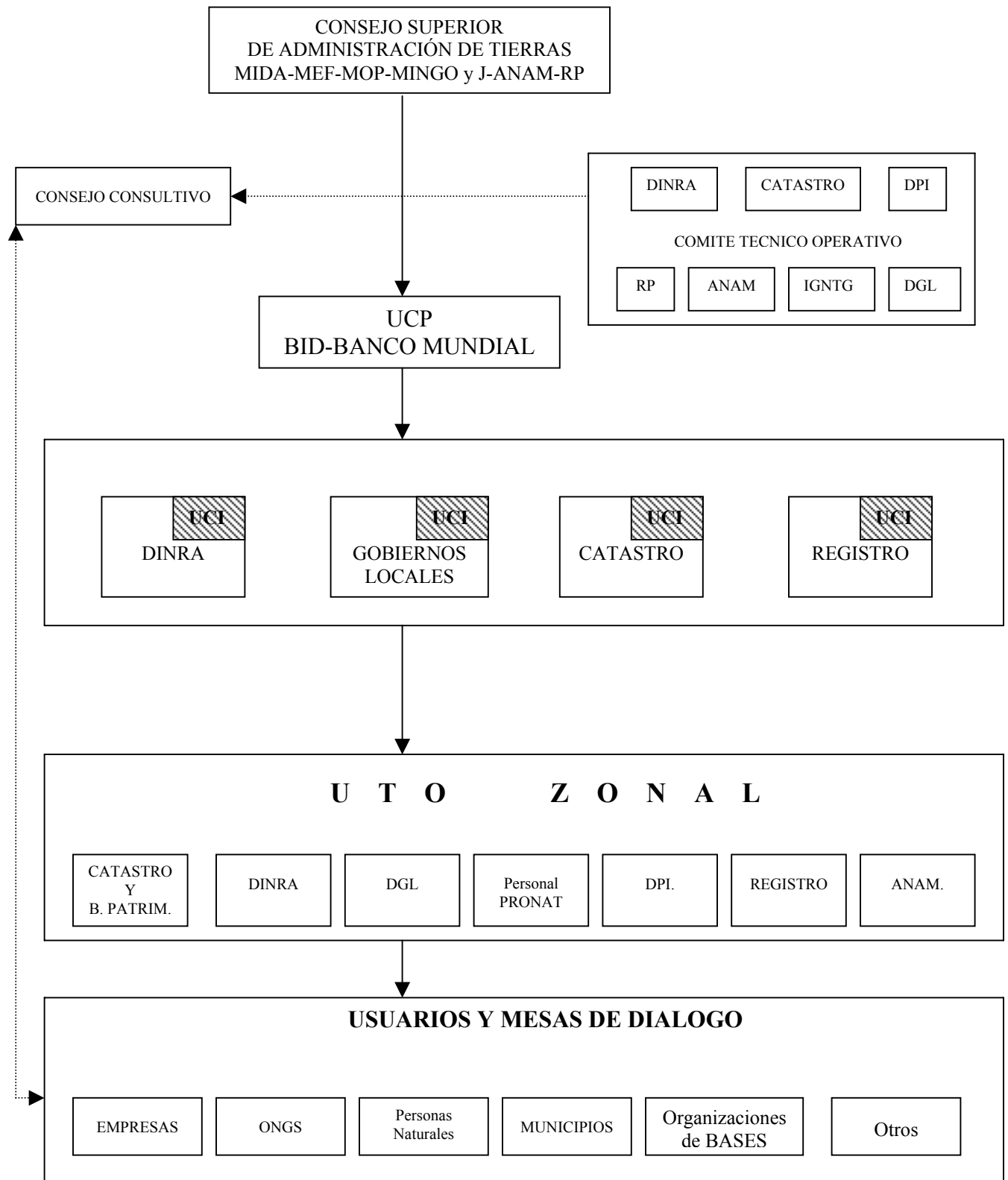
III. PROGRAM EXECUTION

A. The borrower, guarantor and executing

- 3.1 The Executing Agency and Coordinator of the Project will be the Ministry of Economy and Finance (MEF), by means of a central coordination unit, which has been established for that purpose. The following institutions will participate in the project execution, as co-executor: the Ministry of Agrarian Development through the Directorate of Agrarian Reform (MIDA-DINRA), the Public Registry (PR), the Ministry of Economy and Finances through the Directorate of Cadastre and Patrimony (DCBP), the Ministry of Government and Justice through the National Directorate of Local Government (NDLG) and the National Environmental Authority (ANAM). MEF will sign inter-institutional agreements with these agencies. These agreements will be a condition for first disbursement. These agencies will be required to work in coordination, on a massive scale, in the rural, peri-urban and urban areas of the Provinces included in the Project. Each entity will be responsible for executing specific actions, as determined by their functions under Panama's existing legislation, in order to implement the activities of the project, in accordance with the conditions agreed upon with the Bank.

B. Program execution and administration

- 3.2 A project coordination unit has been established by the Executive Decree 124 of November 24, 2001 to implement PRONAT. The structure consists of two parts, each of which reports to the Vice Minister of the MEF who is the General Coordinator of the Program. First, the Superior Council (*Consejo Superior*) for Land Administration has been established to coordinate national policy on land administration. The Council is composed of the Directors of the entities responsible for the various aspects of land administration in Panama. Second, the technical and operational oversight of PRONAT's implementation, including management and oversight of the IDB, World Bank and other external financing, are the responsibility of a Technical Operational Committee (TOC). The Government of Panama, subject to the no-objection of the IDB and World Bank, will designate the Director of PRONAT. Presidential Decree #24 on January 24, 2000 formally created the Superior Council and Technical Operational Committee. The policies and activities established by these executive entities are implemented by the PRONAT Project Implementation Unit as described further below.



- 3.3 The PRONAT Project Coordination Unit (PCU), also created by Presidential Decree #24 of 2000, is under the purview of the MEF, and is currently staffed with an interim Technical Coordinator, a lawyer, and specialists in finance and procurement, as well as technical specialists. The PCU is responsible for coordinating compliance by the Co-Executing agencies with the PRONAT. In the Aide Memoir of June 26th 2001, the Government of Panama, the IDB and World Bank agreed to the future expansion of the PCU when Bank loan resources are approved for PRONAT. It was further agreed that the selection of the permanent Technical Coordinator would be undertaken by mutual accord of the IDB and World Bank with remuneration provided in equal parts. In addition, the Technical Coordinator will be directly supported during the execution of the project, by an International Technical Advisor with the qualifications and experience required to advise the Government in the technical areas pertaining to the program. The IDB and World Bank will also jointly indicate their non-objection to the selection and provide financing for this consultant from both loans. The selection of the Technical Coordinator and International Technical Advisor are currently in process, and advertising of the positions has closed and candidates are currently being evaluated.
- 3.4 The Technical Coordinator of the PCU will be supported by two Administrative-Financial Specialists who will separately provide support regarding the IDB and World Bank's requirements in terms of financial management, accounting, and record keeping. The remuneration of each of these specialists will be paid for during the Program's execution by resources from each Bank, respectively. Each of these specialists will be designated by the Technical Coordinator, after following a process of selection involving public announcement of the position and will be filled by candidates who have the required professional profile and credentials established in the Operational Regulations of the Program, and/or the respective Terms of Reference. The specific functions of the Administrative-Financial Specialist will be determined in: (i) the Program Operating Regulations, and (ii) the Project Document and its annexes.
- 3.5 The PCU will also include technical, administrative, and service personnel who will work in conjunction and independently of the source of financing to support all technical and operative areas of the Program. This staff will also coordinate the activities to be implemented by the several public institutions that are co-executors of the Program. The designation of this staff will be done by the Technical Coordinator of the PCU, in accord with the terms and conditions which have previously been agreed with each of the sources of external financing.
- 3.6 The specific responsibilities of the PCU include the following:
- a. Coordinate the procurement of all goods and services included under the loan program in accordance with policies and procedures of the Bank;
 - b. Prepare, collect and present all reports as required under the conditions of the loan contract and Program Operating Regulations and as necessary for the proper dissemination of information relating to the conduct of the Program, including periodic briefings of the Technical Operative Committee;

- c. Coordinate the activities of the Co-Executors of the Project, including the Ministry of Agrarian Development (MIDA-DINRA), the Public Registry (PR), the Directorate of Cadastre and Patrimony (DCBP), the National Authority for the Environment (ANAM), and the National Directorate of Local Government (NDLG) and other public and non-governmental organizations involved in program execution in order to achieve the stated objectives;
 - d. Implement the Environmental and Social Management Plan (ESMP).
 - e. Perform financial functions, including: maintaining adequate financial, accounting and internal control systems; preparing and submitting disbursement requests to the Bank and corresponding justification of expenses including evidence of the regularization of land holdings; and preparing and submitting to the Bank audited financial statements and other financial reports requested by the Bank;
 - f. Establishment of separate and specific bank accounts for the management of Bank's loan and local counterpart resources.
- 3.7 The PCU will be managed by the Technical Coordinator, who will have the responsibility for day to day supervision of execution, coordination between IDB and World Bank financed units, and the public ministries involved in the execution, monitoring the qualitative and quantitative objectives, preparing reports and ensuring compliance with the loan contract, the Operational Regulations and the ESMP.
- 3.8 The other staff of the PCU to be financed by the IDB will consist of: (i) a cadastre and property regularization specialist (Component 2); (ii) a regional economic development specialist (Component 3) (see Annex II for execution scheme); (iii) an environmental and social specialist on a 50% time basis¹, and (iv) a lawyer, in addition to the financial administrative specialist. Additional support staff for the PCU will be jointly financed with the World Bank as discussed above. **The contracting of the incremental staff for the Project Implementation Unit and the selection of the Technical Coordinator and International Technical Advisor will be conditions prior to first disbursement of the loan.**
- 3.9 The proposed Project will also include an Institutional Coordination Unit (UCI) with personnel from each of the Co-Executing agencies in the areas of project coordination, administration and accounting. These UCI's are intended to insure that there is adequate support and coordination for the Project in these agencies.
- 3.10 Execution will be guided by the Program Operating Regulations which will include, among other items, the selection criteria for Program activities, terms of reference for the Technical Coordinator and International Technical Advisor, other PCU positions and the Technical Operative Committee, requirements for the annual work plans, guidelines for community consultation and participation, conflict resolution and management,

¹ This specialist may be assigned to the PCU by ANAM in accordance with the Terms of Reference previously agreed upon with the Bank.

guidelines for local government, and environmental and social review and management procedures as detailed in the Environmental and Social Management Plan. **Evidence that the Program Operating Regulations have been approved by the Technical Operational Committee (TOC) and have come into effect in the same terms and conditions as accorded with the Bank will be a condition prior to first disbursement.**

- 3.11 Under the technical and operational guidance of the Technical Director and the Technical and Operational Committee (TOC) the IDB and World Bank project implementation units will coordinate their activities to insure technical and legal consistency between the two projects. This will be necessary to ensure that the procedures used in local cadastre, titling, and regularization activities are consistent throughout the PRONAT, and to maintain a unified national land administration system.
- 3.12 Project execution will be managed through an annual plan of operation exercise in which physical targets will be set, based on the prior years' results in project execution. If the project execution review identifies significant delays and bottlenecks in the regularization activities, or the modernization of integrated registry and legal cadastre system (SIICAR), the Bank will not approve new contracts for services until such time as the factors causing these execution problems have been satisfactorily resolved. **An execution condition will be that the Bank will not approve the distribution of bidding documents for rural and urban land regularization until the Technical Operative Committee of PRONAT has (i) approved the technical specifications required for information to be entered into the cadastre and property registry, and (ii) the Provisional System for Cadastre and Land Registry Maintenance has been fully staffed and equipped.**

C. Annual Operating Plan

- 3.13 The annual operation of the project will be executed according to an Annual Operating Plan (POA) to be prepared annually by the PCU, based on the activities programmed and agreed with each of the co-executing agencies. The POA's should be prepared to this effect by the PCU, and approved by the TOC of the Program. The basic content and process for the elaboration and approval of these POA's should be established in the project's operating manual. The POA will also include the activities required for the implementation of the ESMP. Each year during the project's execution and prior to July 31st, the MEF, as Project Executor should present to the Bank the following year's POA. Based on this POA, the MEF, together with the Bank, will make the necessary adjustments, which will be implemented by the Program. If during the revision of the POA's, significant delays or bottlenecks are identified in the land regularization component, the Bank reserves the right to approve the new disbursements and or contracts for services until the factors responsible for these delays have been resolved.
- 3.14 It should be noted that the MEF's leadership in designing and implementing PRONAT is a transitional measure required to implement the legal and institutional reforms and the execute the massive regularization program. Once these objectives have been achieved, the institutional structure created for this purpose, as well as the Bank's Project Implementation Unit would be dissolved. By that time, with benefit of the support of

PRONAT at the level of the Co-Executing entities, including the public registry, national cadastre, agrarian reform agency, national environmental authority, and local government directorate, will have been strengthened and developed a capability to maintain and continue to provide the services required by a modern land administration system.

D. Financial Accounts and External Audit of the Project

- 3.15 During the execution of the project, the PCU will maintain, in accord with UNDP, if approved in the role of financial administrator, an accounting system suitable to the nature and type of project, and following the norms and procedures established by the bank. The PCU, based on the accounting system and the respective statements, will be contractually required to provide annual financial statements for the project, which shall be presented to the Bank within 120 days of the end of each fiscal year, and audited by an independent accounting firm acceptable to the Bank. **The UCP will also present to the Bank, as prepared by UNDP, semester reports pertaining to the status of: (i) the rotating fund, and (ii) the special account used to manage the resources of the loan. The annual costs of this audit, during the life of the project, are included in the project cost as will be financed by charging against the loan resources approved by the Bank.**
- 3.16 During project execution it is recommended that a Rotating Fund equivalent to five percent (10%) of the loan resources be established. The parties to the loan may modify this amount after the first year if considered necessary. Notwithstanding that the conditions of effectiveness have not been fulfilled, the Bank may disburse up to US\$250,000 to finance start up activities of the project, as long as the Borrower has complied with the prior conditions established in the General Terms of the Loan Contract. **These resources may be used to complement and or increase the technical and administrative staff, to procure equipment and for operating costs of the UCP required to initiate activities of the PRONAT to be financed with IDB resources; as well as the tasks required of the Borrower pertaining to the special contractual conditions prior to first disbursement.**

E. Procurement of goods and services

- 3.17 Acquisition of goods and services and contracting of civil works financed with program resources will be subject to Bank procurement procedures and policies. The Executor Agency will use international public bidding for acquisition of goods and related services and for contracting of consulting services that exceed US\$200,000 and US\$1 million for civil works. These limits are justified considering that in similar projects in the country international participation is attracted when amounts exceed these limits. All bidding under the set limits will be done following national legislation when they do not contravene the Bank's procurement policies and procedures. Procurement of individual consulting services will also be done according to Bank procedures and policies.
- 3.18 As established by OP-504 the Bank will recognize retroactive financing from the loan up to the amount of approximately US\$250,000 for reimbursement of expenditures. These expenditures shall have occurred prior to the date of loan approval but after the 12th of

July, 2002, and have satisfied conditions similar to those established in the loan contract. Also, the Bank may recognize retroactive financing from local counterpart funds up to the amount of approximately US\$200,000 for reimbursement of expenditures. These expenditures should have occurred before the date of approval of the loan, but after the 19th of July, 2001, and have satisfied conditions similar to those established in the loan contract

- 3.19 As PRONAT has with the agreement of the World Bank contracted UNDP to administer the program's financial resources, the government of Panama has requested that to ensure the technical and cost efficiency of the program, UNDP also be contracted to assist in execution of the IDB financed project. The Bank's requirements for the financial administration of the project were discussed with PNUD, including: (i) application of IDB procedures in procurement of goods and services, (ii) external auditing and accounting requirements, (iii) establishment of a Bank account or ledger specifically designated for IDB project funds and consistent with current IDB policy; (iv) the institutional capacity of UNDP to administer the project resources; and (v) the fee to be assessed by UNDP for the project's financial administration. The UNDP indicated its acceptance of each of the points raised by the Bank and an Aide Memoire was signed to this effect. Therefore, it is recommended that the Bank approve an exception to procurement guidelines and contract PNUD to administer the project's funds. The justification for this exception is based on the nature of PRONAT, as a wholly integrated national program, with parallel financing by the IDB and World Bank. The nature of the technical activities to be undertaken require a cooperative, integrated structure during execution. Use of a separate financial administrator for the execution of the IDB's financing to PRONAT would unduly increase PRONAT's operational complexity and risk, as well as result in a potential duplication of expenditure. Areas where IDB - World Bank collaboration in procurement include: (i) the design of the integrated system for management of the cadastre and registry (SIICAR), (ii) joint contracting of the project coordinator, and international technical advisor, (iii) the shared cost of the implementation of the project monitoring and evaluation, and public relations expenditures, and (iv) savings in logistical arrangements related to travel and payment of per diem. It should also be noted that once the program has been executed, the PRONAT structure would be dissolved, leaving in its place a modernized institutional structure for land administration and management. **A condition for first disbursement of the resources of the loan will be that the executor agency has contracted the services of PNUD in accordance with the terms and conditions previously agreed with the Bank.**

F. Execution and disbursement schedule

- 3.20 The disbursement schedule for the program, by source of funds, is presented in the table below:

| Table III-1. DISBURSEMENT SCHEDULE (In US\$ thousands) | | | | | | |
|--|--------|--------|--------|--------|--------|--------|
| | Total | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| IDB | 27,000 | 3,000 | 5,000 | 8,000 | 6,000 | 5,000 |
| Local counterpart | 5,000 | 0 | 1,000 | 1,500 | 2,500 | 0 |
| Total | 32,000 | 3,000 | 6,000 | 9,500 | 8,500 | 5,000 |
| Percentage | 100,0 | 9,4 | 18,6 | 29,7 | 26,6 | 15,7 |

G. Supervision, monitoring and evaluation

- 3.21 The monitoring and supervision of the program will be conducted based on progress in the implementation of annual operating plans, and semester monitoring reports to be jointly prepared by the PCU for the IDB and World Bank. The monitoring reports will cover a series of topics, from administrative and project execution aspects, to economic, social, environmental and fiscal impacts of the project. The costs of collecting and analyzing the information for these reports will be shared between the World Bank and the IDB projects. The IDB project portion of the monitoring activities will be financed by the Bank and it has been included in the cost table. The evaluation of project impacts will be conducted based on field data to be collected as part of project monitoring activities, based on a calendar of reports detailed below. Preparation of the monitoring reports will be done by a small group within the PCU, based on reports produced by a consulting company that will be hired to collect field data on project execution as well as project impact. Final versions of the terms of reference for the monitoring and impact evaluation activities will be reviewed jointly by the IDB and the World Bank prior to starting the work.
- 3.22 The project team will also conduct a mid-term evaluation of PRONAT execution, as part of its normal monitoring activities, no later than two years after the first disbursement. The mid-term administrative mission will be requested by the country office in Panama, following Bank procedures, after completion of key project activities such as regularization in one rural and urban cadastral zone, basic studies for the concession of the cadastre, and approval of the initial studies in support of the linkages between property regularization and local economic development. The key objectives of the mid-term evaluation mission will include: the review of the progress of PRONAT towards implementation of the annual work plan; degree of advance towards project objectives; review of any modifications to expedite project execution; impact of institutional reform and restructuring activities on the efficiency of the property regularization process; verification of effectiveness of the environmental review and management process, equitable participation by all groups in the regularization process, particularly women and vulnerable groups; and confirmation of adequate data collection to document the project completion report and ex-post evaluation of the project impact. Any necessary adjustments will be negotiated with the Executing Agency.
- 3.23 The MEF wishes to perform a final evaluation to confirm the project impact, which will be done during the last semester of project execution. This evaluation will require the establishment of a baseline, which will be constructed as part of the monitoring work,

with information required to evaluate the principal economic, social and environmental parameters of the program. The baseline, as well as two replications, will be constructed based on surveys to collect detailed information about economic and social characteristics of households, which received titles with the project and those who already have titles, and rapid assessment exercises to capture community perceptions. An environmental baseline will also be constructed based on the results of the Rapid Ecological Assessments and complementary monitoring and mapping to be compared to data gathered through surveys and remote surveillance regarding stabilization of the agricultural frontier, conservation of forest cover and changes in land use patterns. This information will be collected at the beginning of the project, and at years 2 and 4, to attempt to capture effects of titling on income, credit, investment and land markets. The main thrust of the final evaluation will be to measure impacts in the following areas, using parameters such as those indicated below:

- a. **Economic Impact:** Direct impact on project beneficiaries in measurable incremental family income and land value, investment and productivity of land as a result of increased land security; access, source and cost of credit; land market transactions; and changes in labor utilization. Project impacts will be analyzed to determine its distribution among different landholding sizes. Direct impact on the functioning of land markets, rural as well as urban, focusing on transaction costs, frequency of transactions, and possible effects in terms of plot consolidation and land rental markets. Indirect impact of use of the land administration system by financial institutions, private businesses, and municipal authorities to plan expansion of public infrastructure.
- b. **Financial Impact:** The financial impact of the program in terms of increased revenues for the registry office and property tax revenue to central and municipal governments.
- c. **Social Impact:** The social impact of tenure regularization on women and youths (access to credit, changes in labor supply and remuneration, changes in access to public services affecting health and education, access to land through inheritance.) as well as perceptions of communities about the impacts of the project.
- d. **Environmental Impact:** Environmental effects as a result of changes in land use and the resulting impacts on the natural resource base, particularly forest and green areas, changes in the use of agrochemicals, and adoption and investments on soil conservation practices.

- 3.24 In addition to the above variables monitored to evaluate project impact, information will be collected to undertake a distributional analysis, including the following variables: size and family composition, gender as a factor in access to title, educational level, unsatisfied basic needs, farm size and livestock holdings, access to transportation, and participation in voluntary public or private associations. The survey, its monitoring and evaluation will be conducted by an independent firm or NGO. The final evaluation of the development impact, to be financed by the project, will be conducted not later than six (6) months after the completion of all titling activities.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The current institutional framework is overly centralized and several institutions have similar and/or overlapping mandates. The lack of institutional capacity, inconsistency in existing legislation, an inefficient and highly centralized bureaucracy, as well as duplication of procedures and unclear norms, result in great difficulty in achieving regularization of land titles. Therefore, an institutional diagnosis was carried out and a proposal developed to remedy this situation during project execution. The project design therefore addresses: (i) the current institutional situation; (ii) the roles of institutions to avoid duplication risks and assure a coherent, participatory and efficient project implementation; (iii) project implementation arrangements, including the establishment of the PCU; (iv) principal activities and investments required; and (v) requirements for the maintenance and sustainability of the land administration system.
- 4.2 To address these concerns, the Government has agreed to (i) establish the PRONAT structure to ensure the effective coordination of the various co-executing agencies; (ii) undertake reforms to eliminate duplication and cost associated with the existing institutional regime; (iii) establish the Project Implementation Unit, which will be responsible for the implementation of both loans and to ensure the technical viability and application of a unique regularization procedures; (iv) undertake the necessary activities and investments required; and (v) discuss the potential for the concession of some or all of the functions of the cadastre that can be implemented by private contractors at the national and municipal levels.

B. Socioeconomic viability

- 4.3 The geographic area identified for the project includes the Provinces of Herrera, Los Santos, Veraguas, Colon and Cocle, although other areas may be added during project execution. According to 1997 National Income Survey, 37.3% of the population is poor, and 18.8% are extremely poor. All of the Provinces in the geographic area of the project have poverty indexes in excess of the national average. The project will benefit individuals who do not have formal property title, therefore a sub-group of the total population of these Provinces. Although 36.2% of the households in the whole country lack formal title, this ratio increases to 67.4% in the case of poor households. To verify if the project qualifies as PTI, it is necessary to determine if the majority of beneficiaries are poor, or have poverty indicators, which are below the national average. The analysis conducted during project preparation indicates that the probability of the household without title being poor is almost double the national average. Therefore it can be concluded that the financial support to the PRONAT would contribute to poverty reduction (PTI) and in turn improve social equity (SEQ).

- 4.4 Landowners with unregistered property cannot normally use their property as security for loans because banks typically only accept properties that are duly registered and platted. In resorting to informal financing sources, which are not as strict as property guarantees, landowners must pay higher interest rates. The issuance of land titles, then, has a positive social effect because it allows increased investments improving simultaneously the efficiency of all other inputs and resources.
- 4.5 The World Bank project that is being executed in parallel conducted to a cost benefit analysis which shows that these investments are economically attractive for areas that are similar to the ones this project would cover. That analysis estimated that total discounted benefits equal B/25.0 million and total discounted cost, including land administration, cadastre-registry system, conflict resolution and land titling costs, equal B/13.0 million. The estimated net present value is B/11.5 million. The economic rate of return of the investment is 19%. These calculations are based on coverage projections estimated in the project and the most conservative assumptions in terms of incremental benefit flows. A sensitivity analysis was conducted on the following parameters:
- a. Delayed benefits from land titling: Assume that incremental economic benefits accrue to land after 10 years (not 5 years). The NPV is estimated at B/.0.6 million, and the ERR is estimated at 12%.
 - b. Reduced coverage in land titling: Assume coverage of rural holdings is reduced by 50%. The NPV is estimated at B.0.9 million and the ERR is estimated at 13%.
 - c. Unexpected increase in project costs: Assume total project costs increase by 50% and 100% due to the inclusion of other activities, which prove essential to the achievement of the project objectives. The NPV is estimated at B/4.7 million and the ERR is estimated at 14% for a 50% increase in project costs. The NPV is estimated at B/.(2.1) million and the ERR is estimated at 11% for a 100% increase in total project costs.
- 4.6 The economic analysis is based on estimating the expected impact on land values resulting from securing tenancy. Information from the 1997 National Income Survey was used to assess the difference in value of titled and untitled lands in rural and urban areas. Rural land values were determined based on self-valuation of interviewed people of sale values of their properties. Common value patterns were found for agricultural land dedicated to the main agricultural products and/or activities, such as: cattle, rice, maize, coffee and plantain. Urban land values were estimated based on current and/or potential rent values. Net Present Values (NPV) of 20 year flows of rent payments were calculated as a proxy measure of sale value. Five-year lags were considered for increased economic values of land as a result of land titling, to reflect investment processes and production pattern improvements, even though land values are likely to increase as soon as the title is

received. It should be noted that benefits in terms of improved management of natural resources were not estimated, but are of undoubted importance.

- 4.7 The clarification of private property with registered title would allow access to financing for improved land and natural resource management (forestry, water). Greater capability by municipalities to collect property taxes will allow them to make larger investments in public goods, which will lead to an improvement in the quality of life, particularly with respect to low-income populations.

C. Financial viability

- 4.8 The financial feasibility of land administration projects can be evaluated in four ways; (i) increase in the number of parcels added to the tax or rental property inventory; (ii) increased property transactions through the added tenure security and number of properties in the Property Registry; (iii) increased efficiency in the collection of taxes, rents and other land revenues; and (iv) improvements and addition of new services pertaining to land information provided to the public on a fee for services basis. However, current policies granting tax exonerations in Panama on rural lands of US\$100,000 and urban parcels of US\$20,000 suggest that there will not be a significant increase in tax revenue unless the MEF should in the future choose to increase tax rates, fees and tariffs for services. Therefore, the additional cost of the modernized land administration system will have to be financed from the general fund, or as may be decided, through revenue generated by a third party contractor who has a concession for the maintenance of the cadastre and registry. Furthermore, the improved land administration system established by PRONAT will be an effective instrument for that purpose and the Bank has offered to assist the Government in evaluating this potential. Recent Bank experience in other countries suggest that Government, municipalities, businesses and private sector will agree to increased property tax rates if accompanied by commitments to improve public services and infrastructure. Thus, although direct financial revenue increases are not expected as a result of the project, the significant social and economic benefits to poor, small landowners who will be the primary beneficiaries of the project justify the Bank's support for PRONAT.

D. Environmental impact

- 4.9 The World Bank has assisted PRONAT, in preparing an Environmental Management Plan (EMP) to develop the activities in environmental enhancement and mitigation required by large-scale land titling activities. These activities will be part of the mainstream activities of PRONAT. Key issues identified for environmental mitigation include: (i) deforestation in anticipation of land titling; (ii) increased clearing due to the greater access to credit resulting from the titling; and (iii) increased migration to clear lands in frontier areas. The environmental impacts (positive and negative) associated with induced changes in landholder behavior would be monitored by PRONAT.

- 4.10 The World Bank will finance PRONAT's incorporation of all national protected areas and parks, as well as indigenous *comarcas*, into the cadaster. The specific measures to be financed by the World Bank include: (i) the demarcation of protected areas and co-management arrangements with communities settled within those areas or around their borders; (ii) the creation of up to 6 new protected areas; (iii) complementary demarcation of indigenous *comarcas* and possible creation of one additional comarca; (iv) participatory design of new voluntary arrangements to allow co-management between indigenous leadership and non-indigenous land holders within the comarcas; and (v) monitoring of the effects of titling in fragile areas.
- 4.11 In accordance with these activities to be implemented by PRONAT with World Bank financing, the IDB will not finance land regularization activities in protected areas or *comarcas indígenas*. However, the IDB's project execution unit will actively participate in monitoring the environmental impact of the program, and in coordinating field activities to ensure that they do not interfere with activities in protected and indigenous areas or their buffer zones.
- 4.12 In addition, the Project will include an Environmental and Social management Plan to streamline into the Project Components:
- i. Studies and technical assistance to, among other things: (1) improve land management in coastal areas and in other sensitive areas and in other sensitive areas, and (2) formally clarify and disseminate a definition of the "social function of the land" that takes its ecological functions into account.
 - ii. In IDB's project areas, rapid ecological assessments and field identification of non-protected environmentally sensitive areas, and, when warranted, the preparation of participatory evaluations and management plans that will focus on: (1) opportunities for Civil Society to implement proactive solutions to improve environmental conservation in the project areas, and (2) policies, incentives and restrictions that can be implemented by ANAM, Cadaster and DINRA adjudication procedures and municipal authorities.
 - iii. Environmentally sensitive definition of boundaries for new peri-urban municipalities to orient residential/commercial growth away from agricultural lands.
 - iv. Custodial titling of urban green areas to Municipalities and of other sensitive areas to appropriate authorities.
 - v. Providing training and technical assistance to land owners, local organizations and municipal authorities regarding best practices for the management of land under their control or jurisdiction, including the conservation of forest cover, the appropriate management of agro-

chemicals and possible arrangements for the trading of environmental services.

- 4.13 The World Bank also conducted a socio-economic assessment of the Program, and incorporated the results into the Program design. Social impact issues identified include the potential impact on economic activities of inhabitants of protected areas, and the potential for re-zoning due to the process of land cadastre which could result in a significant increase in land values for rural and peri-urban settlers (with possessory rights), and in the indirect displacement of squatters. Mitigation of these effects will occur through the implementation of actions recommended by the PRONAT Project Implementation Unit to the Technical Operative Committee. The heavy emphasis of the program on co-management participatory approaches, its conflict resolution mechanisms, and its focus on state lands where most settlers have possessory rights, minimize the scenarios that would lead to involuntary resettlement. The PCU will actively participate in the monitoring of these impacts and the implementation of any subsequently recommended actions.
- 4.14 During the preparation of the project, the team has worked with PRONAT to: (i) establish monitoring indicators and mechanisms, as well options to implement adjustments if significant negative impacts are detected and (ii) agree on criteria to ensure that any involuntary resettlement that might be caused by the program is appropriately tracked, and is either avoided or carried out in a manner that is consistent with the IDB OP-710.
- 4.15 The negotiated provisions of the ESMP will be incorporated into the Project Interinstitutional Agreements, Program Operating Manuals and Annual Operational Plans and monitoring and evaluation guidelines. The project budget provides resources to hire an environmental specialist for the Project Executing Unit on a half time basis, to finance rapid Ecological Assessments in pre-identified priority areas, and to support monitoring for key environmental indicators.

E. Beneficiaries

- 4.16 The principal beneficiary groups targeted can be characterized by their predominant lack of legal titles or established rights to land and natural resource use. They include small to medium sized agricultural, livestock and/or extractives producers in rural and peri-urban areas and settlers in peri-urban areas.
- 4.17 **Gender Issues:** The social assessment conducted by PRONAT noted that women head 15% of rural households, but that women are generally not the landholders and they have distinctly less access to land, land titles and credit. As such, the specific aspect of joint titling of men and women was raised with PRONAT early in project preparation, and was subsequently considered in legislative reform presented to the Congress. Techniques to address gender inequalities related to land ownership and use will be utilized and incorporated into the dissemination of

the project and as the basis for further studies and discussion during project execution. This will include specific regulatory studies, gender issues in the training curriculum of specialized land tribunals, outreach to women in regularization areas and surveys and data collection to assess gender equity as part of the monitoring process.

- 4.18 **Youth Issues:** An added benefit of the project, based on the experience of 924/OC-PN, is likely to be to improve the economic situation of the children in the beneficiary families, as many of those seeking title indicated that their prime motivation was to insure the legal inheritance of land parcels they had held informally for many years. The impact of the inter-generational transfer of land assets through the process of facilitating land titles is an important aspect of the process that will be monitored in the project.

F. Risks

- 4.19 The viability of this Project raises a series of issues, which are generally understood due to the past experience of the Bank. First, institutional capacity is a crucial element, as the multi-agency coordination of the entities responsible for the national cadastre, property registry, municipal government and agrarian reform will all be required, as well as a very significant increase in the magnitude of demand for the services of each of these land administration entities.
- 4.20 The second issue is that the benefits of the Project depend on the continued maintenance of the cadastre and registry; necessary for the among other purposes the improvement of tax collection regime, municipal planning, delivery of basic public services and many other public and private activities. If, after the initial titling of the new areas there are subsequent transactions, which are not registered, the result will be a loss of confidence in the cadastre and registry, and the need to repeat the cadastre effort in the future, with the costs entailed.
- 4.21 The third issue is that the Project depends on the sound technical design and sequencing of the implementation of the PRONAT, including critical aspects of legal and institutional reform. To address each of these issues, it has been necessary to identify activities and design features, which are critical to the successful implementation of the Project and include them as part of the annual review process to ensure that adequate progress is achieved each year.
- 4.22 A final issue raised by the Project derives from the nature of the public assets, which are to be transferred to private ownership in the PRONAT. The market-based approach to land transactions can potentially result in project beneficiaries selling their land and quickly spending the proceeds, with the effect that they become landless peasants (or urban migrants). The Project Team has discussed this concern with the Government of Panama and agreed to address the issue through the land market support activity component in the proposed loan.

LOGICAL FRAMEWORK

| Summary of Objectives | Key Performance Indicators | Monitoring & Evaluation | Assumptions |
|---|--|---|---|
| END Promote economic growth through the increase in productive investments in land in Panama. | Econometric analysis of baseline data to determine: i) Increased capital investment (fixed and movable) by beneficiary households. ii) Land prices increase. ii) Tax revenues increased. v) Increase in lending by Banks to beneficiaries | <ul style="list-style-type: none"> Project sample survey Land market value study Household survey data Project sample surveys | The political and economic situation remains stable, despite the change of government. A clear rural development policy exists. Decentralization is a goal for the government and municipal strengthening is the tool. |
| OBJECTIVE: Increase tenure security and modernize the land administration system. | At project completion: <ul style="list-style-type: none"> The GOP will have established an appropriate policy, legal and institutional framework; established a unified methodology for land regularization; modernized the land administration system; and initiated provision of services, including land demarcation, titling, cadastre and registry in priority areas. Information on land administration is used at the national and municipal levels for multiple purposes. Approximately 85,000 rural properties, plus approximately 35,000 ejido properties and small towns, have been incorporated into the cadastre and legalized. | <ul style="list-style-type: none"> Mid-term evaluation; supervision missions Mid-term evaluation field visits to local sites Cadastre/Registry Reports | Rural economic development and land issues are a priority for the government. Government enables participation and social consultation, and facilitates necessary legal and institutional changes. Public Registry Law has been modified and approved. There is sufficient political commitment. Reasonable costs for land administration services have been established. |

| Summary of Objectives | Key Performance Indicators | Monitoring & Evaluation | Assumptions |
|--|---|--|---|
| | <ul style="list-style-type: none"> 725,000 hectares have been regularized. Updated and integrated cadastre and registry system has been established in priority provinces of Veraguas, Herrera and Los Santos. | <ul style="list-style-type: none"> Cadastral maps. Mid-term evaluation Annual Operating Plan of Municipalities. | <ul style="list-style-type: none"> Municipal strengthening is a continuous process. Technical personnel trained and remains stable. |
| <p>1. Land policy and Legal Institutional Framework.</p> <p>Improved policy and regulatory framework for land-related issues.</p> <p>Institutional strengthening (technical, human, financial) and reform of national executing agencies and local capacity-building will enable institutions to apply new policy directives relating to land regularization and administration.</p> <p>Studies of reforms to Agrarian Code</p> <p>Feasibility studies for concession of national cadastre.</p> <p>Regularization of land tenure coastal zone areas in pilot area.</p> | <ul style="list-style-type: none"> Inter-institutional and inter-sectorial coordinating and co-managing mechanisms identified, developed and functioning. Draft revisions of Agrarian Code, Technical studies of economic, financial, technical feasibility completed. 1,000 parcels in coastal zones under legal concession contracts. | <ul style="list-style-type: none"> Minutes of the CTO Reports from participating agencies/Annual Plans. Minutes of the CTO Supervision Missions Reports from Cadastre/DINRA/Registry. | <ul style="list-style-type: none"> There is political will and commitment to carry out a participatory process in policy formulation and implementation. Legal, institutional and land policy framework agreed upon. Legal, institutional and policy reforms implemented and disseminated. Small farmers organizations are willing to participate in policy discussion, formulation and implementation. Political will to support private management of cadastre. Legal basis established for long term concession contracts. |
| <p>2. Land regularizations Services</p> <p>Completion of a systematic legal</p> | <ul style="list-style-type: none"> Approximately 85,000 rural properties and approximately 35,000 ejido properties have | <ul style="list-style-type: none"> Reports from participating | <ul style="list-style-type: none"> Unified methodology |

| Summary of Objectives | Key Performance Indicators | Monitoring & Evaluation | Assumptions |
|---|---|---|--|
| cadastral survey and regularization in the project area. | <p>been included in the cadastre and legalized and one being maintained by the SIICAR.</p> <ul style="list-style-type: none"> Alternative conflict resolution mechanisms are established in priority provinces. | <p>agencies/Annual plans.</p> <ul style="list-style-type: none"> Project reports. Reports from DINRA/Registry | <p>PRONAT's regularization and titling activities is accepted and enforced.</p> <ul style="list-style-type: none"> SIICAR has been developed and implemented. |
| <p>3. Land Markets and Local Economic Development</p> <p>Support for removal of constraints (labor, capital and management) facing property owners to increase local economic impact and support improved municipal services.</p> | <ul style="list-style-type: none"> 60 workshops to improve land productivity, access to finance and labor training completed 20 projects to improve land market cluster implemented. 4 projects to improve use of land administration systems by local municipalities implemented. | <ul style="list-style-type: none"> Reports by NGO. Reports by NGO Reports by NGO | <ul style="list-style-type: none"> Support from other projects is forthcoming to address constraints identified. The SIICAR is functioning and being maintained. |
| <p>Project Components/sub-components</p> <p>1. Modernization of National and Municipal Land Administration Services</p> | <p>Budget</p> <p>US\$1,275,000</p> | <p>Project reports :</p> <p>Semester progress reports, financial statements.</p> | <p>There is sufficient political willingness to formulate new policies and translate those policies into legislation and institutional reforms.</p> |
| <p>2. Land Regularization Services</p> | <p>US\$23,225,000</p> | <p>Semester progress reports, financial statements.</p> | <p>Operational mechanisms of inter-institutional coordination are clearly defined and agreed upon, and are implemented.</p> |
| <p>3. Land Markets and Local Economic Development</p> | <p>US\$2,260,000</p> | <p>Semester progress reports, financial statements.</p> | <p>Landholders participate and perceive that they will benefit from the new land administration services.</p> |

| NATIONAL LAND ADMINISTRATION PROGRAM PROCUREMENT PLAN FOR GOODS AND SERVICES | | | | |
|---|--------------------------|-------------------|-------------------------|--------------|
| CONSULTANCIES | Estimated Sum in US\$ | Type Selection | Date | Observations |
| | | | Trim./Year of Execution | |
| I. Supervision and Administration | | | | |
| a. Technical Coordinator ^(a) | 150,000 | CPN | I /1 | |
| b. International Advisor ^(a) | 300,000 | CPI | I /1 | |
| c. External Audit (for 5 years) | 150,000 | CPN | I /1 | |
| A. Institutional Reform | | | | |
| A.1 Legal Reforms | 325,000 | CPN | I /2 | Anexo |
| A.2 Cadastre Maintenance Strategy | | | | |
| a. Diagnostic, Proposal and Action Plan | 100,000 | CPN | III /1 | |
| b. Feasibility Study | 400,000 | CPI | II /2 | |
| A.3 Coastal Zone Regularization | | | | |
| a. Diagnostic, Proposal and Action Plan | 50,000 | CPN | I /1 | |
| b. Implementation of Pilot | 400,000 | CPI | I /2 | |
| B. Land Regularization | | | | |
| B.1 Rural Titling | 7,500,000 | CPI | II/1 | |
| B.2 Urban Titling | 7,000,000 | CPI | II/1 | |
| B.3 Acquisitions | | | I/1 | |
| Vehicles (18 vehicles) ^(b) | 300,000 | CPN | I/1 | |
| Computers ^(c) | 210,000 | CPN | I/1 | |
| Furniture and Office Equipment ^(c) | 66,000 | CPN | I/1 | |
| B.4 Environmental Evaluations (5 consultancies) | 225,000 | CPN | II/1 | |
| B.5 Conflict Resolution | 650,000 | CPI | II/1 | |
| C. Land Use and Local Economic Development | | | | |
| C.1 Economic Restrictions | 1,200,000 | CPI | I /2 | |
| C.2 Land Markets Cluster | 400,000 | | II/2 | |
| C.3 Municipal Governments | 500,000 | CPN | II/2 | |
| C.4 Public Diffusion Campaign | 160,000 | CPN | I /1 | |
| D. Project Monitoring | 500,000 | CPI | I /1 | |
| (a) Shared Cost | | | | |
| (b) Includes three vehicles for the UCP | | | | |
| (c) Includes acquisitions for the UCP, UCI's and UTO's | | | | |