



LAC-IEE-04-35

## ENVIRONMENTAL THRESHOLD DECISION

<b>Project Location:</b>	Panama
<b>Strategic Objective No. 2:</b>	Economic Freedom: An Open, Diversified, Expanding Economy
<b>Funding:</b>	\$32.5 million
<b>Reference IEE:</b>	LAC-IEE-04-06
<b>Life of Project:</b>	2004-2008
<b>IEE Prepared by:</b>	Rita Spadafora USAID/Panama
<b>Recommended Threshold Decision:</b>	Categorical Exclusion (for T.A., training and education) Negative Determination with conditions (for demonstration activities)
<b>Bureau Threshold Decision:</b>	Concur with Categorical Exclusion (for T.A., training and education) and Negative Determination <b>with conditions</b> (for demonstration activities)
<b>Comments:</b>	

The activities described in the attached IEE including technical assistance, training, alliance building are not expected to have significant impacts on the environment. These activities are not subject to the procedures set forth in 22 CFR, 216.3 except to the extent provided therein. These activities qualify for a **Categorical Exclusion** per 22 CFR, 216.2(c)(2) (i), (iii), (v), and/or (xiv).

Demonstration activities such as agricultural and watershed management, rural road rehabilitation, animal husbandry, solid waste, wastewater management, clean industrial production, ecotourism, small scale construction and forestry can have potential adverse impact. These activities if properly designed and implemented will cause negligible negative impact. I have therefore concurred with a **Negative Determination, however with conditions** as laid out in the IEE. The conditions are that:

- The previously approved Darien and Watershed SO environmental guidelines will be assiduously followed. They will be incorporated into each sub-grant approved for implementation.

- The Mission will carefully monitor these activities, using the tools in the guidelines and through the review of reports and regular inspections and will reserve the right of final review over sub-grants and activities during project implementation.
- The Mission will prepare and submit reports to the BEO and REA by the end of each fiscal year, and again at the end of the life of the project, describing whether the guidelines and mitigation measures were implemented, whether they were effective, and recommending any changes.

In addition, though the system of guidelines to be used is exemplary, it must be used to be effective. A recent field trip report by the REA noted mixed performance re the use of the environmental guidelines in Darien. Therefore it is recommended that **the BEO visit this activity before the end of 2005** to ensure the guidelines are being effectively utilized and recommend any remedial actions required.

\_\_\_\_\_ Date \_\_\_\_\_  
 George R. Thompson, P.E.  
 Bureau Environmental Officer  
 Bureau for Latin America and the Caribbean

- Copy to: Leopoldo Garza, Director, USAID/Panama
- Copy to: Rita Spadafora, MEO, USAID/Panama
- Copy to: Michael Donald, REA
- Copy to: Robert Kahn, LAC/CAM
- Copy to: IEE File

Attachment: IEE

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**INITIAL ENVIRONMENTAL EXAMINATION**

**Project Location:** Panama

**Strategic Objective No. 2:** Economic Freedom: An Open, Diversified, Expanding Economy

**Funding:** \$32.5 million

**Reference IEE:** LAC-IEE-04-06

**Life of Project:** 2004-2008

**IEE Prepared by:** Rita Spadafora  
USAID/Panama

**Recommended Threshold Decision:** Categorical Exclusion (for T.A., training and education)  
Negative Determination with conditions (for demonstration activities)

**A. Background:**

USAID/Panama has a newly approved strategic objective (2004-2008) that proposes to stimulate economic growth and thus reduce poverty. This year, Panama joins the rest of the Central American and Mexico (CAM) Missions in working together on common Regional Objectives. This follows on years of work in the environment and sustainable economic development and on its most recent strategic objective (SO): “Panama sustainable manages the Canal Watershed and buffer areas” for the periods 2000-2006.

The importance of sustainable economic development to maintaining the security and prosperity of critical regions of Panama is undeniable. Watersheds of high environmental and strategic value in the country present both challenges and opportunities related to economic development, especially for numerous sectors that depend directly or indirectly on the health of intact ecosystems.

The crucially important Panama Canal infrastructure is a high economic and national security priority for both the Government of Panama and the U.S., and will continue to be at the center of USAID/Panama’s activity under this SO. Availability of sufficient water of good quality from the 550,000-hectare Panama Canal Watershed (PCW) is essential to guarantee continued effective operation of the Canal’s locks system. Each transit through the Panama Canal requires 52 million gallons of fresh water. Furthermore, the watershed is the source of water for significant hydroelectric energy production for the country, important agricultural production, as

well as municipal potable water supply for Colon and 95% of the residents of Panama City, including the densely populated district of San Miguelito.

Deforestation has already reduced the forest cover in the Panama Canal Watershed and, in the process, has seriously eroded its river valleys and lakeshores. Increasing rates of population migration into the watershed and buffer areas, with concomitant urbanization and poorly managed sanitation systems and economic activity due to loss of resources and stagnant economic growth in other parts of the country also threaten the Canal's environmental sustainability. The PCW is increasingly vulnerable to agricultural, domestic and industrial pollution, siltation, and sedimentation, which reduce the storage capacity of the lakes that serve as the Canal's water source and contribute to eutrophication (i.e., rich in nutrients, resulting in bacteria and loss of oxygen in a lake) and aquatic plant growth, especially algae, in the waterway. Operators of the canal system are understandably interested in the sustainable management of the watershed to ensure the long-term functioning of the Canal.

The unsustainable use of natural resources is a critical contributing factor to economic and political problems in other regions of Panama as well. The potential for destabilizing conflict is increasing in the watersheds of the Darien Province, for example, as a result of spillover effects from Colombia, environmental degradation and the general lack of adequate government presence and rule of law evidenced in this relatively remote area. Natural resource-based disputes are common, such as rights to land, water and other resources are hotly contested among different ethnic and socioeconomic groups. Moreover, the socio-economic condition of that region's population remains at the lowest echelon of Panamanian society. The GOP has made the province a priority for major development of natural resources to alleviate immediate economic problems, and settlers from other parts of Panama are increasingly coming into the Darien to further open the pristine frontier. At the confluence of poverty, corruption and conflict, the pace of environmental degradation in the province continues at an alarming rate from deforestation, conversion to pasture and farms, and mining. These trends are of particular concern given the extremely valuable tropical forest resources and biodiversity present in a region that has been declared both a UNESCO World Heritage Site and a Biosphere Reserve.

Along with challenges in the critical watersheds of the Panama Canal and Darien, there are significant opportunities to promote sustainable economic development, clean production initiatives, adequate waste disposal and social stability through an expanding eco-tourism sector. In addition, developing public-private partnerships that recognize the economic value of conserving watersheds with high biodiversity and significant tropical forest resources offer complementary opportunities to leverage funding. Strategically designed natural resource-based economic activities in the agricultural and forestry sectors can also be greatly improved to both maximize production efficiencies and increase profits, at the same time that pollution is reduced and environmental impacts mitigated.

## **B. Program Description:**

USAID/Panama's program for this SO is based on (i) a series of trade capacity building efforts that, over the long term, will reduce business constraints and (ii) an integrated approach to managing water and land resources in critical watersheds. This approach will maximize Panama's competitive position as well as help ensure a constant, predictable and high quality flow of water to sustain economic activity and healthy human residents of the watershed, while preserving the integrity of the environment. Activities under The Peregrine Fund (TPF) support this program as part of the conservation effort and protection of the habitat.

A two-pronged approach supplements policy support in the PCW with implementation of tangible actions on the ground and community participation at the sub-watershed level. Activities will build on past successes in institutional strengthening. Planned complementary interventions, within and outside the protected areas, will contribute to the overall protection of the ecosystem and biodiversity and help reduce threats to the environment and humankind due to climate change. USAID will continue to serve as a catalyst, bringing to fruition strategic development alliances with government, NGOs and the private sector. These partnerships will help to leverage our support to protect and conserve the PCW while benefiting the population in the communities through improved living conditions.

Efforts will be located in selected sub-watersheds and around critical protected areas of high biodiversity value, and will focus on high potential public-private partnerships in eco-tourism and other environmentally-friendly activities. USAID will also leverage efforts in clean production, sanitation, sustainable agro-forestry, community forestry, micro-enterprise and handicrafts. When relevant, selected activities with national level impact may be promoted to maximize the effectiveness of USAID resources. For example, the harmonization of legal and regulatory instruments for environmental management and the increased compliance with environmental law and regulations have broad relevance, so activities will ensure that reforms are widely understood and adopted. Other aspects of environmental law may be explored for protection of environmentally-sensitive areas, including the role of incentives and conservation easements.

This SO will focus on activities under the CAM Strategy SO2, IR-2.4: *Improved Management and Conservation of Critical Watersheds*, some resources will be utilized to support targeted trade capacity building activities that will be carried out under IR-2.1: *Laws, Policies and Regulations that Promote Trade and Investment*." It is anticipated that these resources will support outreach efforts both during and after free trade negotiations. In the context of the CAM Regional Strategy, USAID/Panama is acutely aware of the potential implications of free trade agreements for the economy in general, and the impacts on natural resource-based activities in particular.

#### *Intermediate Result 2.1: Laws, Policies and Regulations that Promote Trade and Investment*

Activities under this IR will promote trade capacity building efforts both during and after negotiations. It is expected that the activities carried out will better allow Panama to compete in the global economy and attract increased foreign direct investment.

### Illustrative Activities:

- Outreach program to better explain the free trade agreements
- Trade Agreement Implementation
- Assistance in transitioning to free trade in such areas as customs, government procurement, standards, labor, environment and dispute settlement
- Identifying and doing away with business constraints

### *Intermediate Result 2.4: Improved Management and Conservation of Critical Watersheds*

Activities under this IR will promote improved environmental governance through policy and legal reforms, behavioral change, and a more participatory and practical approach to watershed and protected areas management. Successful watershed management activities in pilot sub-watersheds and protected areas will be replicated with national level impact.

Targeted interventions will seek to leverage other resources to promote sustainable management in selected watersheds and sub-watersheds.

### Illustrative Activities:

- Implementation of a jointly-managed incentive fund for community-based actions and improvements for ecotourism activities in protected areas
- Promotion of public-private partnerships for environmentally-sustainable economic activities in areas of high biodiversity value
- Support community awareness/behavior change interventions to encourage best practices
- Training of “corregidores” in environmental governance
- Training on gender analysis, integration and monitoring
- **Technical assistance for the development of sound policies**
- **Technical assistance to develop integrated watershed management plans at the sub-watershed level**
- **Technical assistance and training to improve capacity of stakeholders to perform defined roles and responsibilities**
- Technical assistance to promote the use or adoption of environmentally- friendly technology
- Technical assistance to develop long-term financial sources and mechanisms

### **C. Justification for Environmental Determination:**

The activities described above such as technical assistance, training and alliance building are not expected to have significant impacts on the environment. These activities are not subject to the procedures set forth in 22 CFR, 216.3 except to the extent provided herein. These activities qualify for a **Categorical Exclusion** under 22 CFR, 216.2(c) (2).

Demonstration activities such as agricultural and watershed management, animal husbandry, solid waste, wastewater management, clean industrial production, ecotourism, small scale construction and forestry can have potential adverse impact. These activities if properly designed and implemented will cause negligible negative impact. A **Negative Determination with Conditions** is recommended for demonstration activities. The conditions are that:

- The previously approved Darien and Waterhsed SO environmental guidelines will be assiduously followed. They will be incorporated into each sub-grant approved for implementation.
- The Mission will carefully monitor these activities, using the tools in the guidelines and through the review of reports and regular inspections and will reserve the right of final review over sub-grants and activities during project implementation.
- The Mission will prepare and submit reports to the BEO and REA by the end of each fiscal year, and again at the end of the life of the project, describing whether the guidelines and mitigation measures were implemented, whether they were effective, and recommending any changes.

**D. Recommendation:**

Based on the above discussion, it is recommended that the LAC Bureau Environmental Officer approve a **Negative Determination with conditions for the demonstration activities and Categorical Exclusion for all the others**. Any activity potentially affecting the environment or natural resource policy needs to be reviewed by the Regional Environmental Officer to determine if an amended IEE is necessary.

Concurrence: \_\_\_\_\_  
 Leopoldo Garza  
 Mission Director  
 USAID/Panama

Date: \_\_\_\_\_

Drafted by RSpadafora \_\_\_\_\_ Date \_\_\_\_\_  
 Cleared by RMangrich \_\_\_\_\_ Date \_\_\_\_\_  
 Cleared by MDonald \_\_\_\_\_ Date \_\_\_\_\_