



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 31-Oct-2023 | Report No: PIDC36677



BASIC INFORMATION

A. Basic Project Data

Country Panama	Project ID P181306	Project Name Panama Second Climate Resilience and Green Growth DPL (P181306)	Parent Project ID (if any) P179817
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Mar 29, 2024	Practice Area (Lead) Environment, Natural Resources & the Blue Economy	Financing Instrument Development Policy Financing
Borrower(s) Republic of Panama	Implementing Agency Ministry of Economy and Finance (MEF)		

Proposed Development Objective(s)

The development objective is to establish policy foundations to foster low-emission and sustainable economic growth and climate change resilience.

Financing (in US\$, Millions)

SUMMARY

Total Financing	200.00
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DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

- Amid high economic growth, Panama’s inequality continues.** Panama has been one of the fastest-growing economies in the world, with an average annual growth rate of 6.1 percent between 2001-2019. This high GDP growth has made it one of the few countries in Latin America and the Caribbean (LAC) to make progress in closing the gap with more developed



economy per capita incomes. However, Panama’s income inequality is one of the highest in the region¹, surpassed only by Brazil and Colombia. Part of this inequality stems from an unequal labor market that reflects an uneven distribution of skills, including among sectors. Spatial and ethnic inequalities are pervasive: By 2019, rural poverty was estimated at 28 percent, while poverty in the indigenous comarcas reached 70 percent. Moreover, groups such as Panamanians of African descent and people with disabilities are also prone to marginalization. In addition, the number of migrants in transit has recently reached unprecedented levels² and they encounter significant difficulties. Every day, thousands of migrants cross by foot through the Darien Gap, a 66-mile stretch of treacherous jungle and mountainous terrain. Conditions are extremely precarious and dangerous, and migrants (primarily hosted by Indigenous communities) regularly lack shelter, information, food, healthcare, water, and other basic services and, in many cases, are subject to physical and sexual violence.

2. **Climate change threatens economic growth and disproportionately affects the most vulnerable. Panama suffers from the impacts of both climate-induced natural hazards and altered weather patterns.** The frequency and intensity of El Niño and La Niña events have increased, causing severe floods and droughts.³ This puts the country's main assets and economic sectors at risk, including the Panama Canal and hydroelectric production. In August 2023, severe drought affected the levels of the Panama Canal watershed, impacting vessel transit. The Panama Canal Authority imposed restrictions on navigation, limiting the number of ships to 32 per day (from an average of 36 under normal circumstances) and reducing vessel draft. These restrictions have created delays which impact international trade and global supply chains. Indigenous peoples in coastal regions face additional climate-related challenges. For example, members of the Guna ethnic group are being relocated from their ancestral islands to the mainland due to rising sea levels and other climate hazards. The operation’s focus on resilience for the most poor and vulnerable is complemented by attention to two sectors with the greatest mitigation potential and centrality to building a more resilient society: energy, and land use, land-use change, and forestry (LULUCF).
3. **The operation supports institutional strengthening and policy reforms to increase the country’s resilience.** Key institutional reforms include the development of Panama’s long-term low-emissions development strategy, which will optimize medium-term term planning and budgeting. Furthermore, the operation helps address climate change adaptation and mitigation through the decarbonization of land transport, the implementation of energy efficiency measures, forest conservation and restoration, as well as the protection of coastal ecosystems and oceans. Building on Panama’s capacity to innovate and serve as a regional climate leader, the operation will support global public goods. This includes enhancing the resilience of the Panama Canal by reducing pressure on declining water resources due to climate-change and through improved forest management. In the area of energy efficiency, Panama is catalyzing the adoption of higher regional standards, which will stimulate markets for efficient appliances and prevent the recycling of obsolete and inefficient cooling systems across borders. Finally, the operation supports gender and inclusion-focused policies on rural electrification through renewable energy and digital connectivity, setting the model for peers in Central America and the broader region.

Relationship to CPF

4. **The proposed operation is fully aligned with the objectives of the FY15-21 CPF⁴, its Performance and Learning Review and the upcoming FY22-26 CPF - that will include specific focus areas around climate change adaptation and mitigation.** The DPL achieves the following objectives of the FY15-21 CPF: (i) Objective 4: Complement Social Assistance with

¹ According to the World Bank Data, the 2019 Gini index was 49.8. See: <https://data.worldbank.org/indicator/SI.POV.GINI?locations=PA>

² Close to 130,000 refugees and migrants crossed the Darien Gap between January and April 2023 seeking protection and better opportunities (a sixfold increase on the same period in 2022). The UN expects more than 400,000 refugees and migrants to cross in 2023 if this trend continues.

³ IPCC (2021).

⁴ Discussed by the World Bank’s Board of Executive Directors on March 2, 2015.



Productive Inclusion under Pillar 2 (Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups); and (ii) Pillar 3: Bolstering Resilience and Sustainability. In addition, the reforms supported through this operation are aligned with three out of five priorities identified in the 2023 SCD: (i) ensuring inclusion of vulnerable groups, (ii) promoting environmental sustainability and resilience to natural disasters, and (iii) strengthening public sector institutions. This DPL series builds upon a series of operations in Panama that have been supporting the country's reform agenda over a sustained period of time, the latest of which is the Panama Pandemic Response and Growth Recovery DPL series (P174107 and P175930).⁵ The DPL is also closely aligned with the directions of the World Bank Group's Gender Strategy for 2016-23, from ownership and control of assets, more and better jobs, human endowments, to voice and agency.

C. Proposed Development Objective(s)

5. The development objective is to establish policy foundations to foster low-emission and sustainable economic growth and climate change resilience.

Key Results

6. The operation supports reforms that foster a clean energy transition, socially inclusive low-carbon growth, and technological innovation for disaster preparedness. Pillar II supports climate and nature governance, enhanced institutional capacity for advancing the country's climate change adaptation and mitigation agendas, while fostering resilience and social inclusion. The proposed DPL series underpins Panama's efforts toward long-term sustainable growth by promoting key institutional reforms for decarbonization and climate resilience.

D. Concept Description

7. **This US\$200 million operation DPL is aligned with the 2019-2024 Strategic Plan (PEG) by supporting policy foundations towards an inclusive energy transition and promoting climate change resilience.** This operation is structured around two pillars: Pillar I supports reforms towards a clean energy transition and inclusive low-carbon development by: (i) implementing policies and institutional reforms to promote a transition to a greener and more resilient energy sector; (ii) promoting energy efficiency and electric mobility; and (iii) reducing gender inequities and promoting digital connectivity. Pillar II supports natural capital, climate and nature governance, and social inclusion by: (i) formalizing the long-term low greenhouse gas emission development strategy (LTS); (ii) strengthening the long-term climate governance framework and recognizing the role of MEF in mainstreaming climate into economic policies by updating its Climate Change Policy; (iii) tracking the progress of land use sector climate actions by mandating the use of the Restoration Monitoring System; and (iv) catalyzing public and private investments in blue carbon through new regulation, to achieve Panama's blue economy development goals.
8. **Pillar I focuses on the clean energy transition to achieve the country's NDC commitments, a resilient and inclusive economy.** This pillar supports the country's efforts to foster sustainability and resilience, addressing critical reforms to strengthen governance while fulfilling climate change and long-term sustainable development goals. Supported reforms include new regulatory and policy instruments that tackle emissions from the energy (including transport) sector (PA 1 – PA 2) and promote inclusion and gender equity (PA 3 – PA 4).

⁵ PA 8 of DPL 2 included provisions regarding the approval of incentives for electric mobility for land transportation (evidenced by Law No. 295).



9. **Pillar II supports Panama’s reform program to conserve and sustainably manage natural capital for resilient growth by:** (i) integrating low-carbon development into its sectoral and economy wide planning through formalizing the long-term low greenhouse gas emission development strategy (LTS); (ii) strengthening its long-term climate governance framework through an updated Climate Change Policy that reinforces its Paris commitment and recognizes the role of MEF in mainstreaming climate into economic policies; (iii) enhancing transparency in tracking the progress of land use sector climate actions through mandating the use of the Restoration Monitoring System; and (iv) catalyzing public and private investments in blue carbon through new regulation, to achieve Panama’s blue economy development goals.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

10. **The PAs in DPL2 are expected to positively contribute to poverty reduction and shared prosperity.** PAs under Pillar I support the implementation of Panama's Energy Transition Agenda (ETA), which helps reduce poverty and increase shared prosperity. The ETA is expected to positively impact social and welfare outcomes in the long term, especially PA3 on universal, renewable-based rural electrification through *Plan Colmena*. PAs 1 and 2 support the creation of the legal framework and guidance for the ETA. They are not expected to have negative impacts on poverty and lead to positive health impacts in the short run (PA 1), and a more efficient and rational use of energy (PA 2). PA1 is expected to have direct health benefits for vulnerable populations by preventing the premature death of more than 400 people from respiratory diseases associated with air quality. Furthermore, the energy efficiency policy supported by PA2 enables broader access to energy-efficient appliances with financing mechanisms to mitigate entry costs that could affect lower-income populations and small companies. By 2030, the effective implementation of *Plan Colmena* (PA 3) is expected to benefit 90,000 rural households currently without electricity access and more than 70,000 without access to improved energy sources for cooking. These are expected to reduce poverty, and improve equity and health, as electricity has positive impacts on employment, productivity, and education. Similarly, new households using improved energy for cooking are likely to see improvements in health (especially for women and children). Lastly, PA4 - to lower the price of broadband access and boost adoption of mobile telephony in underserved areas - is expected to have positive impacts on poverty reduction and shared prosperity. This is expected to improve service quality and digital literacy allowing vulnerable populations’ access to educational resources, easier transport planning, emergency response and potential new markets.

Environmental, Forests, and Other Natural Resource Aspects

11. **The measures supported under DPL2 are expected to have an overall positive impact on the environment, forests, and other natural resources.** The proposed policy reforms foster better policy making, enhanced environmental management, reduced emissions, and improved climate resilience. Seven out of eight PAs are expected to positively impact Panama’s environment with the remaining PA (PA4) likely to have neutral impact. Three prior actions also pose environmental risks which Panama’s regulatory systems are well placed to manage.



CONTACT POINT

World Bank

Katharina Siegmann, David Vilar Ferrenbach
Senior Environmental Specialist

Borrower/Client/Recipient

Republic of Panama
Enelda Medrena
Viceminister of Economy
emedrano@mef.gob.pa

Implementing Agencies

Ministry of Economy and Finance (MEF)
Enelda Medrano
Viceminister for Economy
emedrano@mef.gob.pa

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Katharina Siegmann, David Vilar Ferrenbach
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Approved By

Country Director:	Joelle Beatrice Dehasse	24-Nov-2023
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