



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Dec-2022 | Report No: PIDC35274



BASIC INFORMATION

A. Basic Project Data

Country Panama	Project ID P179817	Project Name Panama Climate Resilience and Green Growth DPL (P179817)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Apr 05, 2023	Practice Area (Lead) Energy & Extractives	Financing Instrument Development Policy Financing
Borrower(s) Republic of Panama	Implementing Agency Ministry of Economy and Finance (MEF), Ministry of Environment (MiAmbiente), National Secretary of Energy (SNE)		

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	150.00
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DETAILS

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

- Panama’s future economic growth will be constrained by its capacity to transition to a low carbon and resilient economy.** Panama suffers from the impacts of both climate-induced natural hazards and slow events alteration of weather patterns. Constraints in availability of water resources are already emerging and pose risks to specific sectors and to the broader economy. Even though Panama has a considerable share of hydroelectric generation, the lack of



non-conventional renewable capacity to supply the system during dry periods will expose the sector to fuel price fluctuations from fossil fuel-based generation while producing significant carbon dioxide (CO₂) and particulate emissions. During 2019, hydroelectric production dropped by 25 percent due to the El Niño event, increasing the share of thermal power in the generation matrix and highlighting the need to add non-conventional renewables to the mix, where wind and solar currently account for a modest 8 percent of total generation. Dwindling water resources are particularly sensitive in the areas surrounding the Panama Canal, which is core to the Panamanian economy which is also highly dependent on the sustainable management of forests and natural resources.

2. **The clean energy transition can support achievement of the commitments under the updated Nationally Determined Contributions (NDC) as well as foster economic growth while promoting equity and sustainability.** In November 2020, the Government of Panama (GoP) approved the Energy Transition Agenda (*Agenda de Transición Energética* - ATE, per its Spanish acronym), providing strategic priorities and guidelines for climate action for a national energy policy focused on post-COVID-19 economic reactivation. The ATE outlines a vision towards decoupling economic growth from energy demand, developing a renewable and efficient energy matrix, promoting sustainable mobility and fostering an inclusive and fair energy transition.
3. **Panama's natural capital, combined with the rest of the country's assets-including its social and cultural diversity, economic potential, and geographic situation, offer great potential for developing the economy, under an integrated approach in an inclusive and sustainable way.** The GoP has promoted a series of policy reforms to promote the sustainable use of natural resources, maintain the country's natural capital and the ecosystem services they provide while enhancing adaptation and resilience to the impacts of climate change. Currently, forest carbon removals exceed the total country's emission. Thus, forests and nature-based solutions, both inland and in coastal areas, play a crucial role in achieving the country's mitigation and adaptation targets. Better preserved forests including mangroves and enhanced conservation areas will support the country and local population in enhancing adaptive capacities. Forests and coastal ecosystems provide a wide array of economic goods and services, such as food, tourism, and recreation; and erosion prevention. These assets help reduce the country's vulnerability to natural disasters and contribute to sustainable and resilient livelihoods.

Relationship to CPF

4. **The proposed operation is aligned with the Country Partnership Framework (CPF) for Panama (FY15-21) (Report # 93425-PA).** This DPF series contributes to achieving the following objectives of the CPF: (i) Objective 4: Complement Social Assistance with Productive Inclusion under Pillar 2 (Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups); and (ii) Pillar 3: Bolstering Resilience and Sustainability. This DPF series builds upon the reforms supported by prior DPF series (Panama Pandemic Response and Growth Recovery DPO, P174107) contributing to protect human capital during COVID-19 and support a more inclusive and sustainable economic recovery. This operation reflects a broad policy consensus with the GoP on the criticality of supporting a more green, resilient, and inclusive model in Panama. It is also closely aligned with the World Bank's strategic framework to move "*From Crisis Response towards a Green, Resilient and Inclusive Development*" (GRID) and the World Bank Group Climate Change Action Plan 2021-2025 by integrating climate and development and identifying and prioritizing action on the largest mitigation and adaptation opportunities. It also contributes to the Global Crisis Response Framework.

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 supported reforms will support the country's ambitious energy transition agenda, not only seen as the way forward for climate action in the sector, seeking to fulfil the commitments acquired in the updated NDC, but also promoting a resilient and inclusive economy.** Supported reforms include new regulatory and policy instruments that tackle emissions from the energy and transport sector and achieve sustainable, resilient and accessible infrastructure in addition to supporting institutional strengthening and technological innovation to enable disaster preparedness, and the transition to an economy that is more resilient to climate change.

D. Concept Description

- 7. The proposed Panama Climate Resilience and Green Growth Development Policy Loan (P179817) in the amount of US\$150 million will support the Government of Panama (GoP) to enable low-emission economic growth, social inclusion, environmental sustainability, and climate change resilience** through a policy reform program focused on sustainable, resilient and accessible infrastructure in addition to supporting institutional strengthening and technological innovation to enable disaster preparedness, and the transition to an economy that is more resilient to climate change. This is the first in a series of two programmatic Development Policy Financing (DPF) operations aiming to establish policy foundations to foster low-emission and sustainable economic growth and climate change resilience. Pillar I supports reforms towards a clean energy transition and inclusive low-carbon development by implementing policies and institutional reforms to promote a transition to a greener and more resilient energy sector; promoting electric mobility; and reducing gender inequities and promoting digital connectivity. Pillar II supports the country's efforts to improve climate change governance and social inclusion, foster resilience and connect the climate adaptation agenda to broader policy efforts on avoiding environmental degradation and pollution.
- 8.** 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 electric mobility; and (iii) reducing gender inequities and promoting digital connectivity. Pillar II supports the country's efforts to improve climate change governance and social inclusion, foster resilience and connect the climate adaptation agenda to broader policy efforts on avoiding environmental degradation and pollution by: i) strengthening climate change governance by creating the CC technical committee; (ii) mainstreaming climate in public financial management and support consistent government spending with climate change mitigation and adaptation by climate change tagging of public investment projects; (iii) enhancing effectiveness of environmental impact assessments by regulating the Environmental Impact Assessment Process to include climate change considerations and climate change impacts provisions; (iv) promoting nature-based tourism as a strategic sector for green and inclusive growth; (v) enhancing blue growth, strengthen climate resilience and promote a gender responsive approach to restore and conserve marine-coastal ecosystems by enacting Panama's Oceans Policy; and (vi) addressing environmental degradation and pollution reducing and replacing single-use plastics.

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

Poverty and Social Impacts

- 9. The DPL supports several actions that are expected to build the grounds for positive effects on poverty reduction**



and shared prosperity. The prior actions that support the renewable-based rural electrification through Plan Colmena¹ is expected to have the most significant effects on poverty reduction and shared prosperity. The climate and energy agenda require cross-sectoral actions, strategic coordination between government initiatives and entities are likely to enable the swift implementation of the policy frameworks, maximize efficiency, and increase the benefits for vulnerable populations. Policies in Pillar I set the legal framework to enable the implementation of Panama's Energy Transition Agenda and can help reduce energy poverty and boost prosperity for vulnerable populations when materialized into specific policy actions. Other prior actions are expected to positively impact labor market activation, access to essential services, and poverty reduction for vulnerable groups by promoting a green and inclusive economy. The prior actions in Pillar II are not expected to affect poverty or income distribution negatively. The prior actions can impact poverty and equity indirectly by promoting better public spending and improving government efficiency and can also have the potential to promote equity and reduce poverty in the long run by generating jobs and sustainable livelihoods in rural and coastal regions.

Environmental, Forests, and Other Natural Resource Aspects

10. **The measures supported under the proposed DPF are not expected to have significant effects on the environment, forests, or other natural resources.** The proposed policy reforms aim at fostering low carbon development and enhance resilience. Proposed prior actions range from those with a likely positive impact on Panama's environment, natural resources, and forests, to those that are likely to have a neutral impact, through to those that could have a potentially negative impact if direct and indirect effects from investments incentivized by policy changes are not managed adequately. Moreover, Panama has adequate enforcement capacity to safeguard against any direct or indirect risks or impacts. As such, the operation is not expected to result in any significant environmental harm. The regulatory regime and enforcement capacity is outlined more fully below.

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Implementing Agencies

¹ Plan Colmena is the multisectoral strategy of the Government that seeks to foster territorial development processes, promoting public policy and state institutions in areas of poverty and vulnerability, articulating a series of services aimed at satisfying the fundamental needs of the human being, at the local and territorial level. This Plan, adopted through Law 297 from April 27th, 2022, establishes twelve intervention areas to fulfill its objective of closing the social and economic gaps of people living in conditions of multidimensional poverty or in a state of social vulnerability, including rural renewable-based rural electrification as one of its areas.



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