



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 12-Feb-2023 | Report No: PIDC270417

**BASIC INFORMATION****A. Basic Project Data**

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P179771		Moderate	Panama Partnership for Market Implementation
Region	Country	Date PID Prepared	Estimated Date of Approval
LATIN AMERICA AND CARIBBEAN	Panama	12-Feb-2023	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Republic of Panama	National Energy Secretariat, Ministry of Environment of Panama (MiAMBIENTE)	

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PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	1.62
Total Financing	1.62
Financing Gap	0.00

DETAILS**Non-World Bank Group Financing**

Trust Funds	1.62
Partnership for Market Implementation Facility	1.62

B. Introduction and Context

Country Context

Panama experienced one of the fastest growth rates in Latin America and the Caribbean (LAC) in the years prior to the COVID-19 pandemic, but inequality remains high. The Central American country grew on average 3.7% between 2014 and 2019. Conversely, LAC's Gross Domestic Product (GDP) only increased by 0.9% during the same period. Panama's growth prior to the pandemic was driven mainly by construction and



public investment, which led to the strengthening of the middle class and a decline in poverty rates. In 2020, GDP fell to -18.0%. However, it rebounded with 2021 growth at 15.3%, largely propelled by copper mining, construction, manufacturing, and commerce. For 2022, the growth estimate is 7.2%. However, one of Panama's main challenges is to reduce inequalities that impact women, afro-descendants, indigenous peoples, and rural dwellers.

Despite its high dependence on fossil fuels, Panama is a carbon sink, and its government is committed to remain a carbon sink by 2050. In 2017, Panama's balance of emissions and removals was -9,758.3 kt CO₂eq. Forest lands removal is the main driver of its negative balance, which prevailed from 1994 until 2017, the latest year reported. Even though Panama is not a significant emitter of green-house gases (GHG), the Government of Panama (GoP) has pledged to undertake ambitious mitigation measures. Hence, the First Updated Nationally Determined Contribution (Updated NDC1) includes 29 commitments across 10 strategic sectors, including a quantitative reduction target for the energy sector. Panama aims to cut energy emissions by 11.5% by 2030 and restore 50,000 hectares of forests nationwide by 2050.

The GoP joined the Partnership for Market Readiness (PMR) in 2017 as a technical partner, which facilitated the development of governance arrangements and a legal base for carbon pricing instruments (CPI) analysis and deployment. Funded activities focused on the energy sector, specifically Energy Efficiency (EE) and transport, which is the main emitter, and the forest sector, the only sector with removal capacity. Studies conducted under the PMR informed a national decision-making process which resulted in the GoP's commitment to move forward with the design and piloting of the National Carbon Market of Panama (MNCP), as established by Executive Decree 142 of 2021. Moreover, the World Bank (WB) supported the development of the National Strategy for the Rational and Efficient Use of Energy, which was enacted by the National Energy Secretariat's (SNE) Resolution 13286 of April 8th, 2022, and Cabinet Resolution 66 of June 1st, 2022. Action line 37 of this strategy includes the design and implementation of a National EE Certificates Program. Thus, the GoP is committed to moving forward with the piloting of this program, as well as the design of instrument options for the participation of the transport sector in national and international market-based mechanisms.

Sectoral and Institutional Context

The energy sector is the main GHG emitter with 62.9% (17,780.9 kt CO₂ eq) of emissions in 2017. In Panama, 74.4% of energy is supplied by imported fossil fuels (oil products, carbon, and natural gas) and 25.6% from renewable sources. According to the SNE's energy balance, 46% of energy is consumed by the transport sector, 22.9% by the industry, 14.9% by commercial and public services, and 14.7% by the residential sector. Transport is responsible for 60% of all fossil fuels consumed in Panama. The country's high dependence on fossil fuels makes its economy vulnerable to changing world prices for crude oil and hence, a transition to clean energy is crucial for Panama's long-term energy security and economic stability.

Panama is working on diversifying its power generation matrix and reducing its fossil fuels dependence through the introduction of non-conventional renewable energies (NCRE). Electricity demand has steadily



increased on average 5.19% annually since 2010 (over 60% in the last ten years). The Energy Transition Agenda (ATE) and previous policies have aided in increasing the participation of NCRE, such as wind and solar, in the power generation matrix. In 2021, for example, 71.4% of electricity was generated by hydroelectric generation plants, 18.9% by thermal plants, and almost 10% was generated by NCRE (wind power plants contributed 4.6% while photovoltaic plants contributed with 5.1% of total generation).

The ATE was developed as the main policy instrument for energy solutions, as it outlines steps to transition to an affordable, accessible, reliable, safe, sustainable, and low-emissions energy sector. The ATE constitutes a social contract to achieve the Sustainable Development Goals (SDG) and energy related Updated NDC1 commitments. The implementation of this agenda will require investments equivalent to 1.5% of Panama's GDP by 2050 and could potentially generate 35,000 jobs by 2030 and 100,000 by 2050. These investments will also create savings in the public health sector of approximately US\$ 43 million by 2030 and US\$ 195 million by 2050, due to the reduction in air pollution resulting from the transition to clean energy.

Furthermore, Panama has shown a commitment to strengthening its climate and energy regulatory frameworks. The GoP, with the support of the WB and other international partners, has developed and enacted robust legal instruments to create a solid foundation to study and deploy carbon pricing and other mitigation instruments in priority sectors. The main instruments are described below:

1. **Executive Decree 100 of October 20th, 2020**, regulated the mitigation chapter of the General Environmental Law by establishing the Reduce Your Footprint National Program (PNRTH), Panama's national low-emissions development program and Measurement, Reporting and Verification (MRV) System. Additionally, Article 50 provides a legal mandate to the Ministry of Environment (MiAMBIENTE) to design and implement a domestic carbon market in Panama.
2. **MiAMBIENTE's Resolutions DM-0358-2020 of November 17th, 2020, and DM-0382-2021 of July 19th, 2021**, created the First 50 Carbon Neutral Organizations Declaration, a notarized commitment by organizations to become carbon neutral by 2050.
3. **Cabinet Resolution 93 of November 24th, 2020**, adopted the ATE and outlined a road map for the low-emissions development of the energy sector.
4. **MiAMBIENTE's Resolution DM-0224-2021 of May 5th, 2021**, adopted the technical standard and tools for the operations of the Reduce Your Footprint Corporate – Carbon Program (RTH Corporate – Carbon), the national corporate footprint management program. This and future GHG managements programs will constitute the demand component of the domestic carbon market.
5. **Executive Decree 142 of December 9th, 2021**, created the legal structure for the operations of the National Carbon Market of Panama (MNCP). It also provides a legal mandate to evaluate the economic, environmental, and distributive impacts of carbon pricing instruments to define their viability in the national context.



Relationship to CPF

The project is aligned to all three pillars of the Country Partnership Framework (CPF) 2015-2021 for Panama, as described below:

1. **Supporting continued high growth.** This pillar aims for fiscal policy to prioritize investments and incentives to produce and distribute green energy, thus reducing GHG emissions. The development and implementation of a strategy to address EE and existing institutional challenges is identified as a priority issue. Panama's PMI project includes studies to inform the design and piloting of a national EE certificates program and the development of the MNCP, in line with the ATE and the Updated NDC1.
2. **Ensuring inclusion and opportunities for marginalized and indigenous groups.** The GoP is committed to deepen Panama's position as a competitive global hub by creating a national market for green technologies and emissions reduction, which will generate employment and income opportunities across all sectors and regions. This pillar and the activities included in this project have the twin goals of supporting a strong and sustainable growth model as a main driver for poverty reduction, while enhancing shared prosperity for vulnerable groups. Thus, PMI activities in Panama will be executed through a climate justice lens and aim to lead to more economic opportunities and improved social outcomes for marginalized groups.
3. **Bolstering resilience and sustainability.** The GoP recognizes the various threats its economy and population are exposed to, including climate change induced disasters and the volatility of oil prices. The implementation of the mix of mitigation and carbon pricing instruments outlined in this project will aid Panama in progressively reducing its dependence on oil products. The policy alignment study will devise the best routes for Panama to efficiently address emissions, while paving the way to a phase down of fossil fuels in the national energy matrix.

C. Project Development Objective(s)

Proposed Development Objective(s)

The proposed PDO is to support the Government of Panama to develop and pilot carbon pricing and mitigation instruments aligned with national development priorities, including the ATE, the PNRT, and the MNCP.

Key Results

1. Strengthening of the national knowledge base and the capacity of decision makers for the piloting of CPI and other mitigation instruments, in line with national climate and development priorities.
2. Establishing of the institutional arrangements for the operations of the MNCP, including policies for the definition of its scope and progressive implementation.
3. Development of legal and technical foundations for the operations of mitigation instruments in the energy sector, including a National EE Certificates Program and a National Vehicles' Emissions Registration Program.



D. Preliminary Description

Activities/Components

The PMI project will provide the GoP with the support needed to advance with the implementation of the instruments and policies the PMR helped design and the GoP has decided to adopt as official government policy. The activities will be organized under five components, as described below:

Component 1. Implementation of the PNRTTH

The PNRTTH is Panama's low-emissions development and climate transparency program, an umbrella program for all mitigation-related efforts. The communication of climate matters to stakeholders and the public is often difficult due to the high level of technicality of the subject. Hence, the GoP sought to unify its mitigation vision under one program, which gave rise to the PNRTTH. The PMR assisted the GoP with the design and initial implementation of the program, which includes: (i) the Sustainable System for National Green House Gases (GHG) Inventories (SSINGEI); (ii) the National Emissions Registry (ReNE), (iii) the National Registry for Mitigation Actions (ReNAM); (iv) the National Registry for Means of Implementation (ReNMI); (v) the NDC & Long-Term Strategy (LTS) tracking system; and (vi) the National Platform for Climate Transparency (PNTC). The project will support the GoP by:

- a. **Strengthening the SSINGEI and improving activity data, national parameters, and emission factors for the IPPU and waste sectors:** The Industrial Processes and Product Use (IPPU) and waste sectors have the fastest emissions growth rates, albeit with high uncertainty of emission factors. The project will aid in developing the institutional arrangements, cooperation agreements, training of actors and inventory management tools to improve the quality of emissions data for both sectors.
- b. **Developing a monitoring and improvement plan for the National Registry for Non-Commercial Mitigation Actions under the ReNAM:** This registry will aid the GoP in identifying high-quality projects with potential to be scaled up through state and international investments. Users will be able to register their actions using a registration form.
- c. **Providing technical and legal assistance on Sustainable International Transport:** The WB, through the PMR, supported the GoP with logistical arrangements and technical inputs for informal inter-ministerial dialogues for the establishment of a High-Level Commission on Sustainable International Transport. The expected objectives of this commission include the promotion of interinstitutional collaboration; development and implementation of a strategy for sustainable international transport; and positioning Panama as a global leader in the market for the provision of green products and services for the maritime shipping and commercial aviation industries. This project includes support to enhance the inter-ministerial dialogue started by the PMR.

Component 2. Implementation of the MNCP.



The project will support the implementation of the various elements of the MNCP as follows:

- a. **The National Offsetting Mechanism of Panama's (SNCP) (supply component).** The units certified under the SNCP will be used for compliance with voluntary and/or mandatory emissions limits regulations under the national state-run GHG emissions management programs. The project will aid in piloting the SNCP by developing the procedures for the national certification of units issued by voluntary market standards and other international mechanisms. Additionally, the project will support the design and mounting of the online registry of the SNCP and the development of a communications campaign to incentivize the registration and development of off-set projects under the SNCP.
- b. **The Panama Carbon Exchange (BPC), the marketplace of the MNCP.** The BPC will be a platform where project developers from the voluntary market anywhere in the world, the SNCP, or regulated markets will be able to sell their certified emission reductions to organizations following voluntary or mandatory regulations under the state-run GHG management programs of the PNRTN and/or international buyers. Units derived from Panama-based projects will be of priority for purchase by national market participants. The BPC will be the official platform for national carbon transactions. The project will finance business development studies for the BPC.

The demand component of the MNCP, the PNRTN, will be supported through component 1 described above.

Component 3. Implementation of the ATE

The ATE, which was enacted by Cabinet Resolution 93 of November 20th, 2020, established a roadmap to transition to an affordable, accessible, reliable, safe, sustainable, and low-emissions energy sector. The PMI in Panama will focus on EE and transport components of the ATE. Therefore, the project will finance technical studies and the design of institutional arrangements for the piloting of a National EE Certificates Program. Additionally, the project will also support the piloting of a National Vehicles' Emissions Registration Program, including the design of institutional arrangements and the development of an implementation plan for a sectoral crediting mechanism for the transport sector.

Component 4. Stakeholders' engagement and capacity development

As described above, the PMI will assist the GoP with the implementation of a mix of CPI and mitigation instruments to ensure its midterm and 2050 climate commitments are achieved. Therefore, it is of utmost importance to ensure that a holistic communications strategy is designed and executed to inform the public and ensure the support of private and civil society stakeholders. Hence, the project will support the GoP with the development of this strategy, as well as the execution of a continuous capacity development program for decision makers and stakeholders involved in the study, design, and implementation of CPI in Panama. This program will improve the technical and operational capacity of the GoP to design and implement mitigation instruments in general. Lastly, a specific communications and capacity development campaign will be executed to guide the transition of the RTH Corporate – Carbon Program from a voluntary to a mandatory



compliance phase, which includes the adoption of national structure for the ISO 14065, in line with activities under component 1.a of this project.

Component 5. Project Management

This component will fund the key staff to be hired for the Project Implementing Unit (PIU).

Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

At concept stage, the environmental and social risks of the project are considered moderate. The project will support the Government of Panama to research and pilot carbon pricing and mitigation instrument to advance the positive agenda of GHG emissions reduction, potentially benefiting the Panamanian society at large. The project is not expected to involve physical works that may cause land acquisition or resettlements impacts, lead to labor influx risks, community health and safety risks or impacts on cultural heritage. Design



of proposed policies and instruments is targeted at increasing modernization and competitiveness of industry, economic growth, and foster investments in green technologies. Although the Project will only finance the design of such policies and instruments and not their implementation, the potential downstream social and environmental risks and impacts associated with the implementation of such policies and instruments will be considered in the design phase, as they could adversely impact people, particularly poor and vulnerable households. Among these potential downstream negative impacts are the potential of higher energy prices, job losses and related income loss, among others, including the potential of social unrest as a result of such sectoral reform. To better understand and address such potential downstream effects, during project implementation, the Client will prepare an Environmental and Social Risk Assessment focused on identifying the potential downstream risks associated with the implementation of proposed policies and instruments, together with a series of studies as part of its ?just transition vision?. This E&S Risk Assessment will include high-level mitigation measures and recommendations that will be considered as part of the design of Project-financed policies and instruments.

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Borrower/Client/Recipient

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