



The World Bank

Second Panama Disaster Risk Management Development Policy Loan with a CAT DDO (P174191)

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PGD266

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$100 MILLION TO

THE REPUBLIC OF PANAMA

FOR THE

SECOND PANAMA DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH
A CATASTROPHE DEFERRED DRAWDOWN OPTION

February 11, 2022

Urban, Resilience and Land Global Practice
Latin America and the Caribbean Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.



Republic of Panama

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 2, 2022)

Currency Unit = Balboa (PAB)

1 Balboa = US\$1.00

ABBREVIATIONS AND ACRONYMS

| | |
|------------|---|
| AML | Anti-Money Laundering |
| AITSA | State-Owned Airport Company (<i>Aeropuerto Internacional de Tocumen SA</i>) |
| ANAM | National Environment Authority (<i>Autoridad Nacional del Ambiente</i>) |
| Cat DDO | Catastrophe Deferred Drawdown Option |
| CCA | Climate Change Adaptation |
| CCRIF-SPC | Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company |
| CFT | Combating the Financing of Terrorism |
| CPF | Country Partnership Framework |
| CEPREDENAC | Coordination Center for the Prevention of Disasters in Central America and the Dominican Republic (<i>Centro de Coordinación para la Prevención de los Desastres en América Central y República Dominicana</i>) |
| COMISCA | Council of Ministers of Health of Central America and the Dominican Republic (<i>Consejo de Ministros de Salud de Centroamérica y República Dominicana</i>) |
| COVID-19 | Coronavirus Disease 2019 |
| CSS | Social Security Institute (<i>Caja de Seguro Social</i>) |
| DDT | Directorate of Territorial Development (<i>Dirección de Desarrollo Territorial</i>) |
| DICRE | Directorate of Investment, Concessions and Risks (<i>Dirección de Inversiones, Concesiones y Riesgos del Estado</i>) |
| DPI | Directorate of Investment Programming (<i>Dirección de Programación de Inversiones</i>) |
| DPL | Development Policy Loan |
| DRFS | Disaster Risk Financing Strategy |
| DRM | Disaster Risk Management |
| DRR | Disaster Risk Reduction |
| DSA | Debt Sustainability Analysis |
| ENSO | El Niño-Southern Oscillation |
| ETESA | State-owned Transmission Company (<i>Empresa de Transmisión Eléctrica</i>) |
| FATF | Financial Action Task Force |
| FDI | Foreign Direct Investment |
| FOREX | Foreign Exchange |
| GDP | Gross Domestic Product |
| GDI | Graduation Discussion Income |

| | |
|----------|---|
| GFDRR | Global Facility for Disaster Reduction and Recovery |
| GIRD | Comprehensive Disaster Risk Management (<i>Gestión Integral del Riesgo de Desastres</i>) |
| GRS | Grievance Redress Service |
| IDAAN | Panamanian National Water and Sanitation Utility Institute (<i>Instituto de Acueductos y Alcantarillados Nacionales</i>) |
| ICR | Implementation Completion and Results Report |
| IBRD | International Bank for Reconstruction and Development |
| IEG | Independent Evaluation Group |
| iGOPP | Governance and Public Policies Index (<i>Índice de Gobernabilidad y Políticas Públicas en Gestión del Riesgo de Desastres</i>) |
| IMF | International Monetary Fund |
| INEC | National Institute of Census and Statistics (<i>Instituto Nacional de Estadística y Censo</i>) |
| IP | Indigenous Peoples |
| ISTMO | Integrated Financial Management System (<i>Sistema Integrado de Gestión Financiera</i>) |
| LAC | Latin America and the Caribbean |
| MEDUCA | Ministry of Education (<i>Ministerio de Educación</i>) |
| MEF | Ministry of Economics and Finance (<i>Ministerio de Economía y Finanzas</i>) |
| MINSA | Ministry of Health (<i>Ministerio de Salud</i>) |
| MIVIOT | Ministry of Housing and Territorial Management (<i>Ministerio de Vivienda y Ordenamiento Territorial</i>) |
| NFPS | Non-Financial Public Sector |
| NMHS | National Meteorological and Hydrological Service |
| OIRDS | Comprehensive Disaster Risk Management Office of the Health Sector (<i>Oficina Integral para la Reducción del Riesgo de Desastres en Salud</i>) |
| PAHO | Pan American Health Organization |
| PCGIR | Central American Policy on Disaster Risk Management (<i>Política Centroamericana de Gestión Integral del Riesgo</i>) |
| PDO | Program Development Objective |
| PEFA | Public Expenditure and Financial Accountability |
| PEG | 2019-2024 Government Strategic Plan (<i>Plan Estratégico de Gobierno</i>) |
| PFM | Panama's Public Financial Management |
| PLL | Precautionary Liquidity Line |
| PLR | Performance and Learning Review |
| PNGIRD | Comprehensive Disaster Risk Management National Policy (<i>Política Nacional de Gestión Integral de Riesgo de Desastres</i>) |
| PNGR | National Disaster Risk Management Plan (<i>Plan Nacional de Gestión de Riesgo</i>) |
| SICA | Central American Integration System (<i>Sistema de la Integración Centroamericana</i>) |
| SINAPROC | National Civil Defense System (<i>Sistema Nacional de Protección Civil</i>) |
| SNIP | National Public Investment System (<i>Sistema Nacional de Inversión Pública de Panamá</i>) |
| SOE | State-Owned Enterprise |
| S&P | Standard & Poor's Financial Services LLC |
| TSA | Treasury Single Account |
| UNDRR | United Nations Office for Disaster Risk Reduction |
| WBG | World Bank Group |
| WHO | World Health Organization |

| | |
|--------------------------|---|
| Regional Vice President: | Carlos Felipe Jaramillo |
| Country Director: | Michel Kerf |
| Regional Director: | Anna Wellenstein |
| Practice Manager: | David N. Sisen |
| Task Team Leaders: | Joaquin Toro, Rolando Duran, Felipe Montoya |



REPUBLIC OF PANAMA

SECOND PANAMA DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CAT DDO

TABLE OF CONTENTS

| | |
|--|-----------|
| SUMMARY OF PROPOSED FINANCING AND PROGRAM | 3 |
| 1. INTRODUCTION AND COUNTRY CONTEXT | 5 |
| 2. MACROECONOMIC POLICY FRAMEWORK..... | 8 |
| 2.1. RECENT ECONOMIC DEVELOPMENTS..... | 8 |
| 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY | 13 |
| 2.3. IMF RELATIONS | 18 |
| 3. GOVERNMENT PROGRAM | 18 |
| 4. PROPOSED OPERATION | 20 |
| 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION | 21 |
| 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS | 23 |
| 4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY | 36 |
| 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS | 37 |
| 5. OTHER DESIGN AND APPRAISAL ISSUES | 37 |
| 5.1. POVERTY AND SOCIAL IMPACT | 37 |
| 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS | 38 |
| 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS | 40 |
| 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY | 42 |
| 6. SUMMARY OF RISKS AND MITIGATION | 43 |
| ANNEX 1: POLICY AND RESULTS MATRIX | 44 |
| ANNEX 2: FUND RELATIONS ANNEX | 46 |
| ANNEX 3: LETTER OF DEVELOPMENT POLICY..... | 48 |
| ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE | 53 |
| ANNEX 5: PROGRESS TOWARDS ACHIEVING FIRST PANAMA DPL WITH A CAT DDO'S RESULT INDICATORS TARGETS | 54 |
| ANNEX 6: FIRST DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CAT DDO (P122738) | 57 |

The Second Panama Disaster Risk Management Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option (Cat DDO) was prepared by a World Bank multisectoral team consisting of: Joaquín Toro (Lead DRM Specialist, SLCUR and Task Team Leader); Luis Rolando Duran (Senior DRM Specialist, SLCUR and co-TTL); Felipe Montoya Pino (Urban Specialist, SLCUR and co-TTL); Rodrigo Donoso (Urban Development Specialist, SLCUR); Mirtha Escobar (DRM Specialist, GFDRR); Haris Sanahuja (Senior DRM Specialist, SEAU1); Luis Corrales (Consultant, SLCUR); Maria Pia Cravero (Counsel, LEGLE); Rafael Chelles Barroso (Senior Economist, ELCMU); Luigi Butron (Research Analyst, ELCMU); Maria Camila Padilla Gomez (Senior Procurement Specialist, ELCRU); Maria Virginia Hormazabal (Finance Officer, WFACS); Jose C. Janeiro (Senior Finance Officer, WFACS); Tatiana Cristina O de Abreu Souza (Consultant, WFACS); Alejandro Roger Solanot (Senior Financial Management Specialist, ELCG1); Maja Murisic (Senior Environmental Specialist, SLCEN); Katie O’Gara (Senior Environmental Specialist, SLCEN); Daniela Gayraud (Program Assistant, SLCEN); Jose Antonio Cuesta Leiva (Lead Economist, SSIDR); Ronald Eduardo Gomez Suarez (Senior Health Economist, HMNHN); Abel Caamaño (Adviser, LCROS); Meilyn Gem (Operations Officer, LCCPA) Claudia Pacheco (Program Assistant, SLCUR); Natalia Viquez (Consultant, SLCUR); Constanza Schmipp (Consultant, SLCUR); and Deborah Davis (Senior Editorial Consultant).

This proposed DPL with a Cat DDO operation was undertaken under the general guidance of Yaye Seynabou Sakho (Director, Strategy and Operations, LCRVP), Michel Kerf (Country Director, LCC2C); Andrea C. Guedes (Manager, SARDE); Eric Lancelot (Program Leader, ILCDR); Anna Wellenstein (Regional Director, SLCDR); David N. Sislen (Practice Manager, SLCUR); Oyebimpe Oyelese (Senior Operations Officer, LCC2C); Daniela Marotta (Senior Economist, LCRVP); Luis Anibal Cano de Urquidi (Senior Operations Officer, LCC2C); Evelyn Awittor (Senior Operations Officer, LCROS); Victoria Stanley (Senior Land Administration Specialist, SURGP); Eliana Carolina Rubiano Matulevich (Economist, ELCPV); and Georges Hatcherian (Economist, CROCR).

Peer Reviewers were Zoe Trohanis (Lead Disaster Risk Management Specialist, GFDRR); Tafadzwa I. Dube, (Senior Disaster Risk Management Specialist, SCAUR); and Vica Bogaerts (Senior Disaster Risk Management Specialist, SCAUR).

**SUMMARY OF PROPOSED FINANCING AND PROGRAM****BASIC INFORMATION**

| | |
|------------|--------------|
| Project ID | Programmatic |
| P174191 | No |

Proposed Development Objective(s)

The PDO is to enhance the Government of Panama's technical and institutional capacity to manage the disaster risk resulting from the occurrence of natural and health-related hazards, including the adverse effects of climate change and disease outbreaks.

Organizations

| | |
|----------------------|---------------------------------|
| Borrower: | REPUBLIC OF PANAMA |
| Implementing Agency: | MINISTRY OF ECONOMY AND FINANCE |

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

| | |
|-----------------|--------|
| Total Financing | 100.00 |
|-----------------|--------|

DETAILS

| | |
|--|--------|
| International Bank for Reconstruction and Development (IBRD) | 100.00 |
|--|--------|

INSTITUTIONAL DATA**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate



Results

| Indicator Name | Baseline | Target |
|--|-----------|-------------|
| PA1. Results indicator 1A: Percentage of SINAPROC's staff certified as risk managers nationwide as per the new Civil Protection Career provisions (type percentage) | 0%; 2021 | 35%; [2025] |
| PA1. Results indicator 1B: Percentage of female members within the Civil Protection General Directorate (type percentage) | 39%; 2021 | 50%; [2025] |
| PA1. Results indicator 1C: Number of multisectoral programs endorsed by the DRM Cabinet (type number) | 0; 2021 | 4; [2025] |
| PA2. Results indicator 2: National-level simulation exercises to test multi-hazard response protocols carried out with satisfaction levels at or above 80 percent according to PAHO best practices. (type number) | 0; 2021 | 2; [2025] |
| PA3. Results Indicator 3A: Approval of the NMHS's organizational structure, budget, and staffing plan by the Institute's board of directors (type binary) | No; 2021 | Yes; [2025] |
| PA3. Results Indicator 3B: Number of economic activities and sectors informed through seasonal forecasts emitted by the NMHS. (type number) | 1; 2021 | 4; [2025] |
| PA4. Results indicator 4A: Percentage of territorial plans with DRM and CCA criteria validated by the Directorate of Territorial Development. (type percentage) | 0%; 2021 | 40%; [2025] |



IBRD PROGRAM DOCUMENT FOR THE PROPOSED SECOND DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION (CAT DDO) TO THE REPUBLIC OF PANAMA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation is a standalone US\$100 million Disaster Risk Management (DRM) Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option (Cat DDO).**¹ The operation is designed to support efforts to enhance the Government of Panama's technical and institutional capacity to manage disaster risk resulting from the occurrence of natural and health-related hazards, including the adverse effects of climate change and disease outbreaks. This is Panama's second DPL with a Cat DDO and it builds on the country's evolving regulatory and institutional frameworks for DRM, climate change adaptation (CCA), territorial development and public health emergencies. As a policy instrument, the first DPL with a Cat DDO², provided a solid foundation for the country's DRM program, and the second operation will build on that success.

2. **Although Panama is classified as an upper middle-income country, its institutional development and social outcomes are comparable to countries with lower levels of income.** Notwithstanding robust economic growth, Panama's progress toward reducing inequality has been slower than in other countries in the region and remains a major challenge. While the poverty headcount (at US\$ 5.5/day, purchasing power parity 2017) stood at approximately 12.1 percent in 2019; rural poverty surpassed 30 percent; poverty among Indigenous Peoples (IPs) surpassed 44 percent; and the Femininity Index³ for poor households in 2019 was 129.3. Education and health outcomes also lag significantly with respect to high and middle-income countries. Panama's Human Capital Index (HCI)⁴ is 0.50, lower than that of middle-income countries such as Colombia (0.60), Peru (0.61), and Ecuador (0.59). The strength of Panama's institutions is also below that of countries with similar levels of income, ranking in the bottom 25th percentile for political institutions sub-indices (fundamental rights of and access to power of different social groups) and public sector institutions (regulatory enforcement, regulatory governance, regulatory quality, government effectiveness).

3. **Panama's geographic location exposes it to the increasing frequency and intensity of multi-hazard events, including the El Niño-Southern Oscillation, ENSO⁵ (both El Niño and La Niña phase) episodes in the Caribbean and Central American regions.** Panama is at high risk of earthquakes, tsunamis and epidemics,⁶ as well as climate-related hazards such as wildfires, landslides and urban, riverine and coastal floods. Modeled

¹ The Cat DDO instrument, created by the Board of Executive Directors in 2008, enables countries to immediately access a prearranged amount of funding upon declaration of a State of Emergency due to a natural or climate-related hazard or health emergency.

² Disaster Risk Management Development Policy Loan with a Cat DDO (P122738), approved in 2011 and closed in 2021.

³ This index, published by the Gender Equality Observatory of Latin America and the Caribbean, measures disparities in the incidence of poverty (extreme poverty) between women and men. A value greater than 100 indicates that poverty (indigence) affects women to a greater degree than men; a value less than 100, the opposite situation. <https://oig.cepal.org/es/indicadores/indice-feminidad-hogares-pobres>

⁴ The index measures the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where she lives.

⁵ The El Niño-Southern Oscillation (ENSO) is a recurring climate pattern involving changes in the temperature of waters in the central and eastern tropical Pacific Ocean.

⁶ INFORM. 2021. INFORM Risk (database). <https://drmkc.jrc.ec.europa.eu/inform-index>



projections⁷ of the Panama's future climate identify a likely increase in temperature and greater variance in rainfall; and in areas affected by wildfire hazard, the fire season is likely to increase in duration due to longer periods without rain. The ENSO event during the 2015-2016 dry season caused economic losses estimated at US\$72 million in the agriculture sector⁸ and US\$40 million in Panama Canal revenues.⁹ In the first half of 2019, an El Niño-triggered drought led to economic losses estimated at US\$15 million in Canal revenues, as well as a significant loss of crops and an alarming decline in fresh water resources.¹⁰ In 2020, Hurricane Eta, although it did not make landfall in Panama, caused heavy rains, floods and landslides, resulting in deaths, population displacement and agriculture losses totaling US\$11 million.¹¹ Multi-hazard events are also predicted to increase in the Tocumen River Basin on the eastern edge of Panama City, where much of the country's key infrastructure is located.¹²

4. **These catastrophic events have a disproportionate impact on the poor and vulnerable, who have very limited capacity to cope with the loss of housing, livelihoods and access to basic services.** Climate-induced flooding can increase water-borne and vector-borne illnesses.¹³ Other climate-related impacts on health include heat stress, asthma, cardiovascular events, food insecurity and a shortage of drinking water. Women, rural communities, Indigenous Peoples, Afro-descendant communities, and other vulnerable groups could become more vulnerable than they already are to malnutrition,¹⁴ malaria and the COVID-19 pandemic. In 2017, more than 60 percent of the indigenous population lacked basic food security and access to basic water and sanitation systems, compared with only 19 percent of non-indigenous communities.¹⁵ Further, these climate-related catastrophic events are causing the deterioration of entire natural ecosystems, including forests, coastlines, agricultural areas and fisheries, which a large share of the vulnerable population depend on.

5. **In responding to the COVID-19 crisis, the government has disbursed most of the resources made available through its disaster risk financing (DRF) toolbox, including the funds remaining from the first DPL with a Cat DDO.** To continue to have a reliable source of quick liquidity to cope with major shocks, Panama has a critical need to replenish and recapitalize its depleted DRF instruments. The proposed second DPL with a Cat DDO will strengthen the government's capacity to respond quickly and effectively to any shock triggered by a materialized natural or climate-induced catastrophe.

⁷ These projections were made using the analytical tool ThinkHazard, developed by the Global Facility for Disaster Reduction and Recovery (GFDRR). <https://thinkhazard.org/en/report/191-panama>

⁸ Food and Agriculture Organization (FAO). 2018. *Panamá albergará datos agroclimáticos regionales para enfrentar la sequía*. <http://www.fao.org/panama/noticias/detail-events/es/c/1145277/#:~:text=En%20Panam%C3%A1%2C%20en%20los%20dos,%2C%20seg%C3%BAn%20las%20autoridades%20agrop%20ecuaras>.

⁹ Rodríguez, M. 2019. *El Canal de Panamá perderá millones de dólares en ingresos por la sequía*. *ALnavío*, April 3. <https://alnavio.es/noticia/18099/economia/el-canal-de-panama-perdera-millones-de-dolares-en-ingresos-por-la-sequia.html>.

¹⁰ UNDP. 2019. *Garantizar la seguridad hídrica y enfrentar la crisis climática: retos para que Panamá avance en equidad y desarrollo*. <https://www.pa.undp.org/content/panama/es/home/presscenter/articles/2019/alianzas-publico-privadas-para-garantizar-la-seguridad-hidrica-y.html>.

¹¹ IFRC. 2020. Panama: Hurricane Eta. <https://reliefweb.int/report/panama/panama-hurricane-eta-dref-operation-n-mdrpa013>

¹² World Bank. 2020. *Flood Risk and Coastal Assessment of the Tocumen River in Panama City*. Washington, D.C.

¹³ <https://documents1.worldbank.org/curated/en/552631515568426482/pdf/122328-WP-PUBLIC-WorldBankClimateChangeandHealthDiagnosticMethodologyJan.pdf>

¹⁴ Ibid.

¹⁵ https://www.cepal.org/sites/default/files/publication/files/46698/S2000893_en.pdf



6. **In response to the increasing threats from climate change, the Government of Panama has been evolving toward a disaster risk framework focused less on responding to disasters and more on a prospective, comprehensive and inclusive DRM system.** The current DRM framework, put in place in 1982, created the National Civil Protection System (*Sistema Nacional de Protección Civil*, SINAPROC) to oversee disaster preparedness and response. A reform enacted in 2005 gave SINAPROC a coordinating function aimed at preventing and reducing the impact of climate and multi-hazard disasters but did not increase the agency's decision-making authority or its importance in the institutional hierarchy. In 2010, in alignment with the Central American Policy on Comprehensive Disaster Risk Management (*Política Centroamericana de Gestión Integral del Riesgo*, PCGIR), Panama approved the Comprehensive Disaster Risk Management National Policy (*Política Nacional de Gestión Integral de Riesgo de Desastres*, PNGIRD).¹⁶ The 2010 DRM policy clarified the DRM responsibilities of line ministries and relevant government agencies, and laid out a regulatory framework in which the Ministry of Economics and Finance (MEF) plays a leading role in disaster risk financing.

7. **To further integrate DRM into public policy, in 2019 the government approved the Strategic Plan for DRM as part of the Government's Strategic Plan (*Plan Estratégico de Gobierno*, PEG) 2019-2024.**¹⁷ The Strategic Plan called for the development of a more comprehensive institutional framework to address the risk factors for climate and other disasters, and to support gender-equitable participation in disaster prevention and recovery. In line with the PEG, in 2021 the government approved Executive Decree No. 251,¹⁸ which created the Cabinet for Comprehensive Disaster Risk Management (*Gestión Integral del Riesgo de Desastres*, GIRD), a high-level coordination entity under the Presidency tasked with ensuring implementation of the DRM agenda. This Cabinet complements the coordination responsibilities of SINAPROC by focusing on disaster preparedness and response in multiple sectors and integrating risk management into sectoral planning. Under the DRM Cabinet, the sector ministries are responsible for establishing strategic plans for the operational continuity in their sectors in the event of disaster.

8. **Consolidating and financing the different approaches to DRM, at both the territorial and sectoral levels, continues to be a major challenge.** The government recognizes that existing institutional arrangements need to be updated to effectively address the observed and projected trends in climate, rural and urban development, and population growth, along with changes in the natural, agricultural and built environments. To support these efforts, in 2014 the government adopted a Disaster Risk Financing Strategy (DRFS) and Operational Plan to improve its multi-hazard early warning capabilities and strengthen its financial resilience to natural hazard shocks. Panama also joined the Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company (CCRIF-SPC), after MEF, with technical support from the World Bank, had conducted a cost-benefit analysis of potential disaster financing facilities. In addition, Panama is currently assessing which sovereign insurance strategy would provide the optimal cost/benefit ratio for catastrophic insurance coverage. The government also recognizes the need to reduce its contingent liabilities resulting from natural disasters and public health crises by improving the country's capabilities for natural hazard risk identification and assessment. Technical evaluations carried out as part of the Governance and Public Policies for DRM Index (*Índice de Gobernabilidad y Políticas Públicas en Gestión del Riesgo de Desastres*, iGOPP) show that Panama is falling behind most Latin American

¹⁶ The PNGIRD was enacted by Executive Decree No. 1101 of December 30, 2010 and published in the Official Gazette No. 26699-B of January 12, 2011.

¹⁷ The government's Strategic Plan (PEG) was adopted through Executive Cabinet Resolution No. 149 of December 30, 2019 and approved the government's Strategic Plan for the next five years. The Cabinet Resolution was published in the Government of Panama's Official Gazette (*Gaceta Oficial Digital*) No. 28931-A, on December 30, 2019.

¹⁸ https://www.gacetaoficial.gob.pa/pdfTemp/29364/GacetaNo_29364_20210830.pdf



peers¹⁹ in these areas. Panama's existing multi-hazard monitoring networks and early warning systems are in urgent need of technical and institutional upgrading.

9. **This second DPL with a Cat DDO aims to support consolidation of the policy and institutional reform process in which the government has been engaged since 2010.** The creation of a high-level, multi-sectoral Cabinet for Comprehensive Disaster Risk Management, along with the creation of a Civil Protection Career and a Directorate in charge of supporting regional management units, would put Panama in a strong position with regard to risk management under complex risk scenarios. The scenarios cover differentiated vulnerabilities, epidemiological emergencies and concurrent impacts of climate and natural hazards. Based on an assessment of the existing gaps in Panama's DRM system developed by the United Nations Office for Disaster Risk Reduction (UNDRR)²⁰, as well as a Gender Gap Analysis on DRM developed at the regional level,²¹ the proposed operation will foster closer integration of general emergency response and health response systems. It will also put in place systems to better quantify disaster risk impacts on the population's well-being. The Prior Actions for this operation will increase the government's capacity to identify, monitor and address the different vulnerabilities of men, women, boys and girls living in poor communities and populations with higher conditions of inequality, whose well-being is disproportionately affected by all type of shocks.

10. **This Second DPL with a Cat DDO is consistent with IBRD's graduation policy, World Bank Group (WBG) corporate priorities and the World Bank's Green, Resilient, and Inclusive Development (GRID) approach.** Panama's gross national income per capita (US\$12,420 in 2020, Atlas method) is above the graduation discussion income (GDI), the level at which the World Bank shifts its focus from poverty reduction to addressing key non-income factors in development, such as quality of institutions and access to markets. The DPL with a Cat DDO focuses squarely on improving Panama's institutional capacity for DRM, and particularly its ability to carry out sustained climate and natural hazard identification, monitoring and risk assessments, while simultaneously promoting sustainability and inclusiveness. Further, the operation provides the country's first tier of DRF and supports the development of strategies to transfer risk to financial markets, initially through its membership in the regional CCRIF-SPC. Additionally, the operation supports policy reforms for climate change adaptation and public health emergency systems, both of which are regional and global public goods consistent with the WBG's climate change commitments. It also addresses long-term inequities that put women, the rural population, and Indigenous Peoples at greater risk of adverse impacts from natural events and health emergencies.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

11. **Prior to the COVID-19 pandemic, Panama was growing at rates well above the regional average, led by construction, transport and communications.** From 2014 to 2019, Panama's Gross Domestic Product (GDP) grew at an average rate of 4.6 percent, while the Latin America and Caribbean (LAC) region grew at an average of 0.8

¹⁹ Mexico, Costa Rica, Colombia, Peru, Argentina, Dominican Republic, Chile and Guatemala, as per iGOPP, 2025 (IDB).

²⁰ <https://www.undrr.org/es/rar-reporte-regional-de-evaluacion-del-riesgo-de-desastre-en-america-latina-y-el-caribe>

²¹ Towards Disaster Risk Management with a Gender Perspective in Central America 2020. Carried out by the Global Facility for Disaster Risk Reduction and Recovery, GFDRR.



percent.²² As a result, Panama has been one of the few countries in LAC to make progress in converging to the income per capita of more developed countries. In 2000, Panama's GDP per capita amounted to 11 percent that of the United States. By 2019, the figure had increased to 24 percent. Services have been the primary driver of growth, contributing to almost two-thirds of Panama's increase in GDP. The transport, communications and financial services sectors have played a particularly notable role in growth and industry represents the second most important driver. Growth was pushed by construction throughout the 2014-2019 period and by mining more recently (in the wake of the world's largest new copper mine opening in 2019). Construction, however, was slowing before the pandemic due to the conclusion of mega projects such as the Canal expansion and an oversupply of residential and commercial buildings. On the demand side, growth has been balanced, with consumption as a primary driver, but with important contributions from investment and net exports, particularly in 2018-2019.

12. Panama has been severely hit by the COVID-19 pandemic and suffered significant damage from hurricanes at the end of 2020. Panama has been the most affected country by the COVID-19 pandemic in LAC, reaching a peak of 830 new cases per million inhabitants by early January 2021²³. The pandemic receded in Panama, with the number of new cases consistently declining since mid-July 2021. However, the outbreak of the Omicron variant caused new COVID-19 cases to peak at unprecedented levels. The number of deaths has increased but has not reached the levels seen early in the pandemic, showing the positive effects of vaccines. Moreover, Panama reached a vaccination rate of 82 percent of the target population fully vaccinated by the mid-January 2022. Lastly, although Hurricane Eta did not make landfall in Panama, the country suffered from the effects of the storm, with heavy rains, floods and landslides in November 2020, leaving significant damage to infrastructure and communications and displacing vulnerable population²⁴.

13. These combined shocks caused a large decline in GDP and an increase in poverty. The structural forces shaping growth amplified the effects of the COVID-19 crisis, which led Panama to post a GDP decline of 17.9 percent in 2020. As a result, per capita gross national income (Atlas method) fell from US\$14,920 to US\$12,420 between 2019 and 2020 placing the country back into the upper-middle-income category of the World Bank. This performance reflects both a lack of demand but also a restriction on supply because of COVID-19. For example, construction, which declined by 51.8 percent, was halted from March to September 2020. Similarly, Panamanian airports were closed from March to mid-October 2020. Retail activities contracted 19.4 percent, led by a decline of 21 percent in re-exports from the Colón Free Trade Zone. There were some bright spots, however, such as the increase in agricultural production led by rice, corn and banana crops. Mining also performed well, with copper exports posting a record output. All the same, these positives were not sufficient to counterbalance the negative effects in other sectors. As a result, unemployment reached 18.5 percent in 2020 and the poverty headcount increased to 14.9 percent in 2020, up from 12.1 percent in 2019 (at US\$5.5/ day purchasing power parity). Government policies, which include transfers to households (*Panamá Solidario*) for an amount equivalent to 1.3 percent of GDP, played a critical role in mitigating the adverse effects of the crisis. Without these timely interventions, it is estimated that poverty would have increased to 18.8 percent. Finally, the pandemic might have long lasting effects since food insecurity has doubled, and the rate of children participating in primary and secondary education has dropped from 97.3 to 89.3 percent according to *WB COVID-19* High Frequency Monitoring Survey.

²² GDP data for Panama comes from the Panama's National Institute of Census and Statistics (INEC), while data from other countries come from the World Bank's World Development Indicators.

²³ COVID-19 data is sourced from Our World in Data and the Panama's Ministry of Health.

²⁴ IFRC. 2020. Panama: Hurricane Eta. <https://reliefweb.int/report/panama/panama-hurricane-eta-dref-operation-n-mdrpa013>



14. **Economic activity rebounded strongly in 2021, but the social impacts of the COVID-19 crisis are still present.** GDP grew by 15 percent up to September of 2021 (with an estimated growth rate of nearly 10 percent in 2021²⁵), boosted by higher copper production and price (65 percent increase in production²⁶), increased movement at the Canal (15 percent increase in cargo volume) and in the number of airport passengers (14.8 percent increase)^{27,28}, as well by consumption and public investment. Labor markets have shown strong signs of recovery in 2021 (the number of registered labor contracts increased by 61.5 percent from January to August of 2021); however, informality and self-employment have increased.

15. **The current account balance turned to a surplus of 3.4 percent of GDP in 2020, largely due to a contraction in import demand, and continued to perform well in the first half of 2021.** Imports dropped by 37.3 percent in 2020, including a drop in fuel imports of 59.3 percent²⁹. At the same time, exports grew by 14.7 percent in 2020, driven by both agricultural and non-agricultural goods, with copper exports growing 34.5 percent. Panama remained a net exporter of services in 2020, with a surplus of 12.2 percent of GDP. This was despite the 77.1 percent drop in passenger travel. The deficit in income transfers was also reduced from 5.7 to 2.2 percent of GDP, adding to the turnaround in the current account. Finally, foreign direct investment (FDI) declined from US\$3.7 billion to US\$0.6 billion from 2019 to 2020, contributing to the large accumulation in reserves. Exports of goods grew by 107 percent in the first half of 2021 due to higher copper exports and prices, while imports of goods grew 29 percent in the same period. In the same period, the current account turned from a surplus to a deficit of US\$1.2 billion.

16. **The deflationary impacts of the crisis are now fading, while its effects on the banking sector are starting to show up.** The COVID-19 crisis brought inflation down from an already low level of 0.4 percent at the beginning of 2020 to a deflation of 1.6 percent at the end of 2020³⁰. Transportation and housing expenditures were the main drivers of deflation. As oil and other commodity prices rebounded in 2021, transportation prices increased nearly 14.8 percent as of November-21 (year on year), bringing headline inflation to 3.4 percent. The crisis' impact on the banking sector has been partly delayed by Panama's regulatory forbearance measure, which allowed borrowers to renegotiate their loans (including grace periods and maturity extension) without incurring fees and penalties. The forbearance measure created a new and temporary category of credit (*créditos modificados*) that is considered as performing loans, despite having been renegotiated, and requiring only a 3-percent provision. The amount of those loans declined from US\$22.9 billion in December 2020 to US\$11.9 billion in November 2021, but they still represent around one-fifth of all credit stock. The forbearance measures expired in September 2021, and its effects are starting to show up in the financial soundness indicators. Non-performing loans as a share of total gross loans increased from below 3 percent in December 2020 to 4.2 percent in November 2021. The profitability (return on equity) of the banks declined from 14.4 percent at the onset of the COVID-19 crisis to 8 percent in November 2021. However, the banks are still very liquid, and the ratio of regulatory capital to risk-weighted assets remained around 16 percent since June 2020 to September 2021, helping to mitigate risks.

²⁵ National Statistics Office

²⁶ Panama Cobre Company

²⁷ National Statistics Office

²⁸ Canal and airport traffic data is obtained from INEC.

²⁹ Balance of Payment data is obtained from INEC.

³⁰ Inflation data is obtained from INEC, while financial sector data comes from the Bank Supervision Agency.



17. **Panama's public sector debt-to-GDP ratio increased substantially during the COVID-19 crisis.** Public debt increased from US\$31 billion (46.4 percent of GDP) in 2019 to US\$37 billion³¹ (69.8 percent of GDP) in 2020 (Table 1) as revenues plummeted and the public deficit widened. Also, the denominator – the nominal GDP – declined by 20.9 percent³² (Figure 1). The increase in debt was mainly funded from external sources, with bonds accounting for three-fourths of the change and multilaterals for the rest.

18. **The deficit increase was driven by an increase in expenditures, while GDP and revenues declined sharply.** Public expenditures increased from 21.8 percent of GDP in 2019 to 28.7 percent of GDP in 2020 (5.7 percent nominal increase), while revenues were stable as a share of GDP—18.3 percent of GDP in 2019 and 18.4 percent of GDP in 2020 (21.2 percent nominal decline). As a result, the non-financial public sector (NFPS) deficit increased from US\$1.9 billion (3.5 percent of GDP) in 2019 to US\$5.4 billion (10.3 percent of GDP) in 2020. The initial borrowing plan for 2020 called for US\$4.1 billion in new borrowing, but actual borrowing ended up at around US\$8.7 billion, despite efforts from MEF to reallocate budgetary resources towards priority spending.³³ The deficit was reduced to 6.9 percent of GDP as of September 2021, below the target of 7.5 percent of GDP.

Table 1 – Panama Public Debt Stocks and Flows: 2018-2021

| | 2018 | 2019 | 2020 | 2021 |
|--|---------------|---------------|---------------|---------------|
| Total Public Debt Stock (US\$ Million) | 25,666 | 31,018 | 36,960 | 40,488 |
| External Debt | 20,554 | 24,223 | 29,817 | 32,844 |
| Multilaterals | 5,614 | 6,060 | 8,179 | 8,879 |
| Bilaterals | 183 | 169 | 161 | 203 |
| Private Banks | 518 | 452 | 351 | 251 |
| Bonds | 14,238 | 17,542 | 21,127 | 23,511 |
| Domestic Debt | 5,112 | 6,795 | 7,143 | 7,644 |
| <i>Total Public Debt Stock (% of GDP)</i> | <i>39.5</i> | <i>46.4</i> | <i>69.8</i> | <i>71.5</i> |
| Changes in Public Debt Stock (US\$ Million) | | | | |
| New Borrowing | 4,230 | 7,518 | 8,650 | 6,809 |
| Amortization | (1,931) | (2,192) | (2,765) | (3,250) |
| Exchange rate and other adjustments | 14 | 27 | 57 | (31) |
| Total Change | 2,313 | 5,353 | 5,941 | 3,528 |
| Changes in Public Debt Stock (% of GDP) | 3.6 | 8.0 | 11.2 | 6.2 |
| New Borrowing | 6.5 | 11.3 | 16.3 | 12.0 |
| Amortization | (3.0) | (3.3) | (5.2) | (5.7) |
| Exchange rate and other adjustments | 0.0 | 0.0 | 0.1 | (0.1) |
| Total Change | 3.6 | 8.0 | 11.2 | 6.2 |
| Nominal GDP effect (p.p. of GDP) | | (3.6) | (8.0) | (11.2) |
| <i>Memo:</i> | | | | |
| Nominal GDP | 64,928 | 66,788 | 52,938 | 56,656 |

Source: Ministry of Economy and Finance

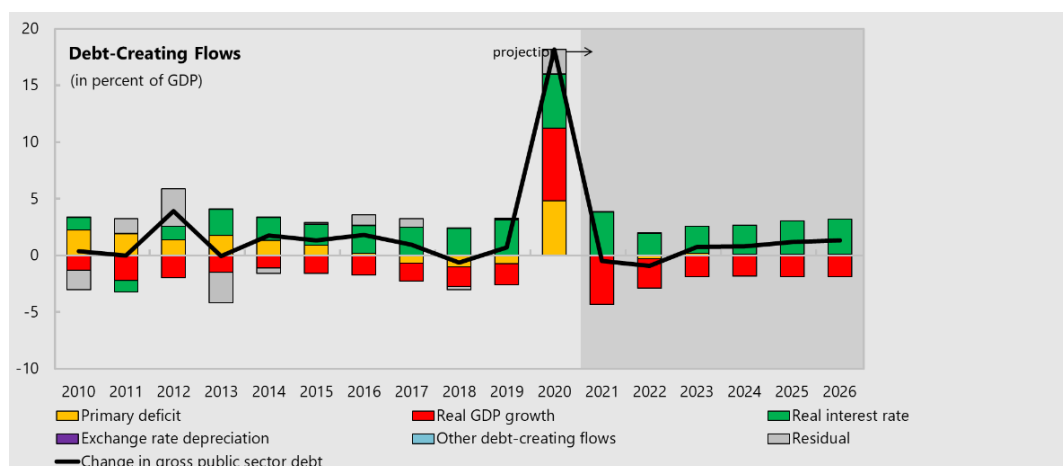
³¹ Public debt and fiscal (revenues and expenditures) data is obtained from the Ministry of Economy and Finance.

³² The nominal GDP effect – the change in the debt-to-GDP ratio driven by the difference between the 2020 and 2019 nominal GDP, while holding the debt constant at the 2019 level – added 12 percentage points of GDP to the ratio.

³³ The government reallocated US\$2 billion in the Budget from investment projects that had not been initiated, travel expenses, payroll, and goods and services to fund additional spending in health and social protection.



Figure 1 – Debt-Creating Flows: 2010-2026



Source: Ministry of Economy and Finance and World Bank Staff

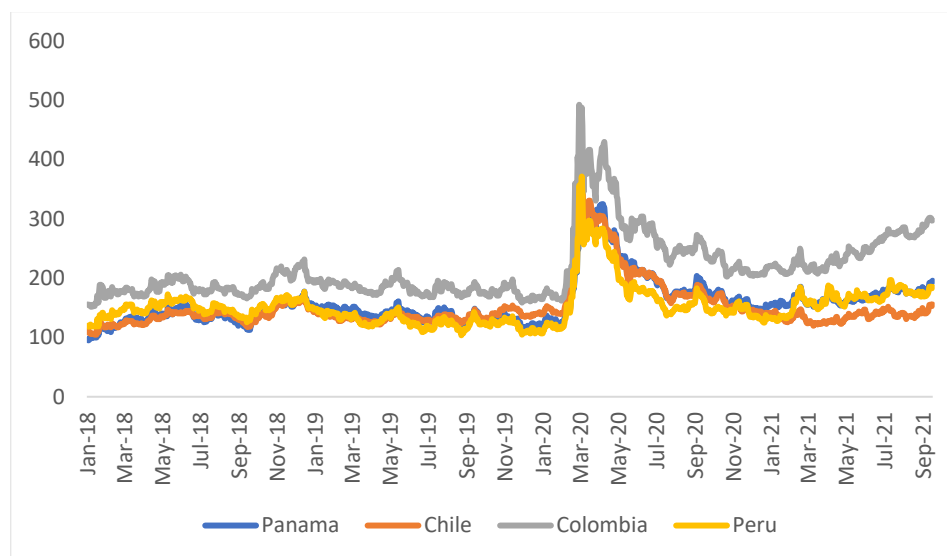
19. **Though constant in terms of GDP, both tax and non-tax revenues declined in 2020 in nominal terms (only revenues from the Canal proved to be resilient), but they all rebounded in 2021.** Tax revenues (-27.7 percent) declined more than non-tax revenues (-11.7 percent), which were helped by the increase in revenues from the Canal, which account for 18.7 percent of all NFPS revenues. Toll and service revenues increased by 1 percent, while dividends paid by the Canal grew 5.2 percent from 2019 to 2020, for a total increase of 3.9 percent. The resiliency of Canal revenues is due to both the variety of goods going through the Canal and a proactive fee policy by the Panama Canal Authority. In 2021, NFPS revenues rebounded growing 23.4 percent up to September.

20. **In response to the COVID-19 crisis, the government expanded social protection and health spending and maintained public investment at 2019 levels, using budget reallocations to help moderate the overall increase in spending in 2020.** The Government of Panama responded to the COVID-19 crisis by increasing health expenditures and by creating a new transfer program (*Panamá Solidario*) to alleviate the poverty impacts of the crisis on households. It also maintained public investment near 2019 levels, but below the original 2020 budget level, to avoid further negative shocks to GDP. As a result, total expenditures increased moderately in nominal terms (6.6 percent for current and 3.2 percent for capital expenditures) in 2020. In 2021, government expenditures grew 19.7 percent, led by capital expenditures, which grew 31.9 percent. Current expenditures grew on a more moderate pace (15.8 percent), led by transfers to individuals, to the pension system and higher payroll especially on health.

21. **The debt increase led rating agencies to downgrade Panama's sovereign rating, which nevertheless remains above investment grade.** Standard and Poor (S&P) changed the outlook to negative and downgraded the country (from BBB+ to BBB with stable outlook) in November 2020, and then changed the outlook again to negative in August 2021. One of the reasons cited by S&P for the downgrade was the increase in the ratio between interest payments and revenues for the NFSP, which rose from 10.2 percent in 2019 to 14.5 percent in 2020. Moody's changed the outlook in October 2020 and downgraded the sovereign (from Baa1 to Baa2 with stable outlook) in March 2021. Fitch downgraded Panama in February 2021 from BBB to BBB- and maintained a negative outlook. Panama is still two notches above investment grade for S&P and Moody's, and one notch above for Fitch. The country risk—with bond spreads of about 181 as of September 27, 2021—remains one of the lowest in LAC.



Figure 2 – Sovereign risk spread (Emerging Markets Bond Index Basis Points): 2018-2021



Source: Bloomberg

22. **Despite the downgrades, the debt profile has been improving since the beginning of the COVID-19 crisis.** Panama's Debt Management Office has taken advantage of the good market conditions—such as abundant external liquidity and low interest rates due to accommodative monetary policy and expansionary fiscal policy in developed countries—to improve key debt risk indicators. The average cost of the debt went down by more than 50 basis points (from 4.62 percent in 2019 to 3.93 percent in September 2021), and the average maturity increased by almost three years to 13.5 years. In January 2022, Panama issued US\$2.5 billion in 11- and 41- year bonds with rates of 3.3 and 4.5 percent covering more than 60 percent of the annual financing needs.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

23. **Continued economic growth is expected for Panama in 2022, underpinned by the good management of the COVID-19 pandemic and still benefitting from GDP growth carryover.** The pandemic has been well managed with high vaccination rates, which allowed the country to forgo new restrictions on mobility or business, despite the increase in cases brought by the Omicron variant. This has prevented the government from rolling back restrictions and has enabled the economy to continue to build on the large GDP base effect from 2020 and 2021, which supports a growth forecast of 7.5 percent in 2022. Other contributing factors to growth are new public investment, such as the extension of Metro Line 2 to Tocumen airport, the start of construction of Line 3, and the full operation of the copper mine. Going forward, the introduction of public-private partnership contracts, with WBG support, will allow for sustained infrastructure investment and higher FDI. On the other hand, residential and office construction is not expected to rebound in the short term due to oversupply and the banking sector's prudent stance on new real estate loans. A rebound in international tourism should contribute to growth starting in 2022, which should return to its long-term growth level of around 5 percent by 2023.

24. **Inflation will pick up and the surplus in the current account will diminish, both at moderate levels.** Inflation is expected to stay below 2 percent in 2022 due to more stable oil prices and waning inflationary impact from the COVID-19 crisis and supply chains but should moderate afterwards. The current account surplus is expected to decrease on the back of higher overall imports linked to increased economic activity. The full



operation of the Panama copper mine as well as higher average copper prices will add to exports, partially counterbalancing the increase in imports, and ensuring a balanced current account in the medium term.

25. **The GDP rebound, together with a gradual fiscal consolidation, is expected to stabilize and gradually reduce the debt ratio over the medium term.** World Bank staff forecast a real GDP growth of 7.5 percent in 2022 and then a convergence to a potential growth rate of approximately 5 percent by 2023. Revenues are expected to expand, benefiting from the GDP rebound, improvements in tax administration, more tax revenues from the mining sector, and growing Canal receipts. Expenditures are forecast to decline gradually as the government phases out COVID-19-related expenditures, reduces transfers, imposes more discipline on capital expenditures, and adopts a more conservative fiscal stance to control the wage bill and the purchase of goods and services. The 2022 Budget has a conservative revenue increase of 3.6 percent over 2021 and a budget deficit of 4 percent of GDP, in line with the adjustment path set by the Fiscal Social Responsibility Law, which set declining limits to the deficit so that debt reaches 1.5 percent of GDP by 2025.

26. **Public debt is deemed sustainable, as it presents a declining burden under different scenarios and limited roll-over risks.** World Bank staff updated its fiscal forecasts and debt sustainability analysis (DSA) under the baseline scenario of a gradual fiscal consolidation consistent with the scenario outlined in the 2022 Budget, in which most COVID-19 expenditures (estimated around 2 percent of GDP) are phased out and revenues increase, supported by tax administration measures.³⁴ The forecast also assumes a long-term growth rate of 5 percent, which is in line with historical data but higher than the years just before the pandemic. An extreme real GDP growth shock (average growth rate of -1.8 percent from 2021 to 2026) would set the debt burden on increasing and non-sustainable trend. The World Bank staff analysis found that the public debt-to-GDP ratio will stabilize in 2021 and decline constantly after that (Figure 3), as the primary balance remains above the level needed to stabilize the debt ratio (from 2022 onwards) and fiscal deficits will comply with the Fiscal Social Responsibility Law. The DSA shows that the debt-to-GDP ratio will still be declining under the historical primary balance assumption but could expand in the extreme scenario of no adjustment to the primary deficit with respect to 2020 peak (Figure 4). Two alternative scenarios were also analyzed: (a) slow consolidation; and (b) slow consolidation with no pension reform, given the imminent possibility that the deficit of the social security system will require fiscal transfers. In the first scenario, the assumption is that the government increases tax expenditures as a response to the COVID-19 crisis and expenditure controls are lax, leading to a slower decline in the primary deficit. The second scenario adds the need to finance the increasing deficit of the pension system starting in 2023, due to lack of consensus to reform the system. Even under these adverse scenarios, the debt-to-GDP ratio can be expected to decline over time, albeit at a slower pace (Figure 5). Therefore, given the declining debt under three scenarios and different shocks, the debt is deemed to be sustainable. Given the soundness of the financial sector and the relatively good standing of the State-Owned Enterprises (SOEs) not included in the DSA, no scenarios with risks from the banking sector, The Panama Canal Authority and the airport company were simulated.

³⁴ The IMF estimates that improvement in tax administration efficiency can yield cumulative revenue gains of up to 2 percentage points of GDP over the course of several years.



Figure 3 – Debt-to-GDP ratio under baseline scenario: 2010-2026

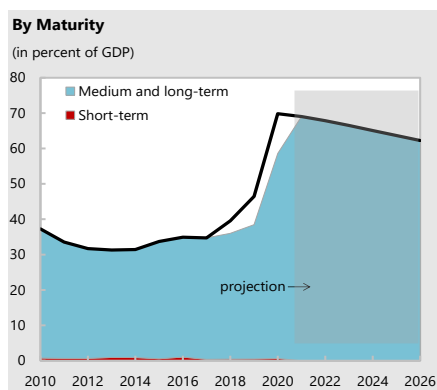
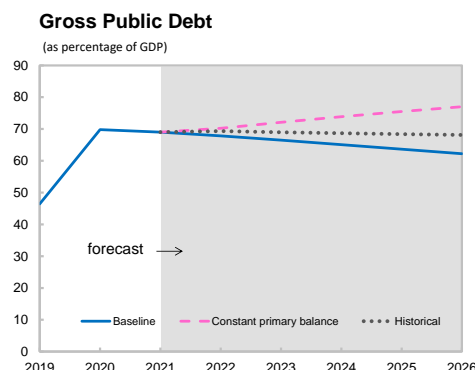
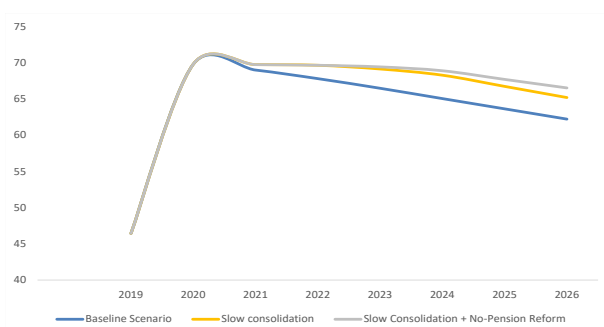


Figure 4 – Debt-to-GDP ratio shocks to baseline scenario: 2019-2026



Source: Ministry of Economy and Finance and World Bank Staff estimates

Figure 5 – Debt-to-GDP ratio under different scenarios: 2019-2026



Sources: Ministry of Economy and Finance, Bloomberg, and World Bank Staff.

27. **Nonetheless, there are medium-term external and internal risks that should be monitored.** External risks include United States monetary policy tightening, terms of trade shocks and natural disasters. United States monetary tapering can raise refinancing costs for emerging economies like Panama, while lower copper prices or higher oil prices can adversely impact Panama's current account, growth, and revenues. On disasters, the proposed DPL with a Cat DDO plays a significant role in strengthening Panama's financial protection capacity to better prepare for and respond to future disasters and climate change impacts.³⁵ Panama is also vulnerable to impacts on FDI from its inclusion on the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) lists. The government has been making progress on implementing the recommendations of the Global Forum and the Financial Action Task Force of Latin America (*Grupo de Acción Financiera de Latinoamérica*, GAFILAT), with Bank support through a separate DPL series and support from other international agencies. This includes the recent enactment of Law 254/2021 that improves AML/CFT prevention by upgrading required accounting standards and due diligence and making improvements to the Ultimate Beneficiary Owner registry.

³⁵ Governments in the region are using all available financing options to deal with the COVID-19 pandemic social and economic impacts, including disaster risk financing instruments (contingency lines of credit, emergency funds, budget reallocations, international aid). These actions have drastically reduced the availability of such instruments to respond to future disasters, thereby not only increasing governments' financial exposure but also limiting access to liquidity to support their already overloaded emergency systems.



28. **Potential medium-term fiscal risks include the actuarial deficit of the pay-as-you go pension system,³⁶ and SOE liquidity risks.** On pensions, the government has convened a multistakeholder forum to explore options and develop a reform plan for 2022/23. The authorities are also closely monitoring liquidity risks for large SOEs: The Panama Canal Authority (*Autoridad del Canal de Panamá*, ACP) and the airport company (*Aeropuerto Internacional de Tocumen SA*, AITSA). These have ample access to finance, moderate and declining debt burden with low interest rates and long maturities (e.g., AITSA's key debts mature in 2036 and 2048).

29. **Panama's macroeconomic policy framework is sustainable and adequate for the proposed operation.** The main fragility of the macroeconomic framework is the fiscal accounts, but a large part of this imbalance is transitory and caused by the COVID-19 crisis. There is clearly a large output gap, as the GDP was 11 percent below the pre-pandemic level by the end of 2020. The government is working to address more structural fiscal weaknesses as it prepares a pension reform and improves its tax administration efficiency. The dollarization anchors prices, while the integration of the country's trade and capital flow ensures that eventual deficits in the current accounts are financed. The macroeconomic risks are mitigated by the current Precautionary Liquidity Line (PLL) with the International Monetary Fund (IMF) and the country's ample access to capital markets. Given that part of Panama's fiscal imbalances is transitory and that its potential output growth is high, the country's macroeconomic framework is therefore deemed sustainable and adequate for the proposed operation.

Table 2 - Panama: Key Economic Indicators and Projections: 2017 – 2025

| | 2017 | 2018 | 2019 | 2020 ^e | 2021 ^p | 2022 ^p | 2023 ^p | 2024 ^p | 2025 ^p |
|---|---|--------|--------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Real Economy | Percentage change (unless otherwise indicated) | | | | | | | | |
| Real GDP | 5.6 | 3.6 | 3.0 | -17.9 | 9.9 | 7.5 | 5.0 | 5.0 | 5.0 |
| Contributions: | | | | | | | | | |
| <i>Consumption</i> | 1.2 | 1.7 | 1.7 | -9.5 | 4.3 | 2.9 | 2.4 | 2.3 | 2.3 |
| <i>Investment</i> | 3.6 | 0.4 | 0.0 | -16.1 | 3.7 | 4.0 | 3.1 | 3.9 | 2.3 |
| <i>Net Exports</i> | 0.0 | 0.2 | 2.1 | 6.0 | 1.4 | 0.2 | -0.6 | -0.3 | -0.3 |
| Imports | 4.3 | 4.1 | -3.3 | -29.3 | 17.0 | 5.3 | 4.9 | 3.9 | 4.0 |
| Exports | 5.0 | 5.1 | -0.1 | -22.0 | 20.0 | 5.6 | 3.8 | 3.4 | 3.5 |
| CPI (eop) | 0.9 | 0.8 | -0.4 | 0.0 | 2.0 | 1.5 | 1.5 | 1.5 | 1.5 |
| Fiscal Accounts | As percent of GDP | | | | | | | | |
| Non-Financial Public Sector (NFPS) | | | | | | | | | |
| Expenditures | 21.9 | 22.5 | 21.8 | 28.7 | 27.3 | 25.9 | 25.0 | 21.1 | 20.9 |
| Revenues | 20.0 | 19.6 | 18.3 | 18.4 | 20.1 | 21.1 | 21.5 | 19.2 | 19.4 |
| Primary Balance | -0.1 | -1.1 | -1.6 | -7.5 | -4.4 | -2.1 | -1.1 | 0.3 | 0.7 |
| Overall Balance | -1.9 | -2.9 | -3.5 | -10.3 | -7.2 | -4.8 | -3.5 | -2.0 | -1.5 |
| NFPS Gross Debt | 37.6 | 39.6 | 46.4 | 69.8 | 69.0 | 67.8 | 66.5 | 65.6 | 63.6 |
| Balance of Payments | As percent of GDP (unless otherwise indicated) | | | | | | | | |
| Current Account Balance | -5.9 | -7.6 | -5.3 | 3.4 | 2.2 | 1.9 | 0.7 | 0.3 | 0.2 |
| Imports | 43.3 | 44.5 | 41.0 | 35.7 | 41.0 | 40.4 | 40.2 | 40.4 | 40.0 |
| Exports | 43.7 | 44.0 | 42.4 | 41.6 | 49.3 | 48.5 | 47.5 | 48.0 | 47.3 |
| Foreign Direct Investment, net | 6.9 | 7.6 | 5.5 | 3.2 | 5.0 | 5.2 | 5.4 | 5.8 | 5.8 |
| Gross Reserves (in billion US\$, eop) | 2.7 | 4.1 | 2.9 | 8.5 | 8.4 | 8.5 | 8.6 | 8.7 | 7.9 |
| Terms of Trade | -1.5 | -1.8 | 0.8 | 0.7 | .. | .. | .. | .. | .. |
| Exchange rate (average) | 1.0 | 1.0 | 1.0 | 1.0 | .. | .. | .. | .. | .. |
| Memorandum items | | | | | | | | | |
| Nominal GDP (in million USD) | 62,203 | 64,928 | 66,788 | 52,938 | 59,291 | 64,624 | 69,471 | 73,049 | 78,230 |

Source: Ministry of Economy and Finance, INEC (National Institute of Census and Statistics), and WBG staff calculations

³⁶ There is no updated official estimate for the actuarial deficit of the pension system. As part of the national dialogue for the reform of the Social Security Institute (*Caja de Seguro Social*, CSS), the government is hiring the International Labour Organization (ILO) to carry out the actuarial analysis. CSS financial statements suggests budget transfers increased from US\$336 to \$371 million between 2018 and 2019.



Table 3 – Panama: Balance of Payment Financing Requirements and Sources (US\$ Million): 2019-2025

| | 2019 | 2020 ^e | 2021 ^p | 2022 ^p | 2023 ^p | 2024 ^p | 2025 ^p |
|---------------------------------|--------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Financing requirements | -4,736 | 897 | -1,211 | -1,552 | -1,421 | -1,452 | -1,472 |
| Current account deficit | -3,333 | 1,233 | -1,211 | -1,552 | -1,421 | -1,452 | -1,472 |
| Net error and omissions | -1,404 | -336 | 0 | 0 | 0 | 0 | 0 |
| Financing Sources | 5,963 | 4,654 | 2,280 | 2,227 | 1,866 | 2,254 | 2,670 |
| Short term capital inflows | 22 | 11 | 23 | 24 | 28 | 29 | 32 |
| Foreign Direct Investment, net | 3,686 | 627 | 3,167 | 3,650 | 4,059 | 4,347 | 4,656 |
| Portfolio Investment, net | 3,055 | 2,426 | 903 | 975 | 1,381 | 1,479 | 1,584 |
| Government Borrowing, net | 5,332 | 4,208 | 3,938 | 2,583 | 3,095 | 1,972 | 2,281 |
| All other flows, net | -6,132 | -2,619 | -5,750 | -5,005 | -6,697 | -5,574 | -5,884 |
| Change in reserves (+ increase) | 1,227 | 5,550 | 1,069 | 675 | 445 | 802 | 1,197 |
| Financing Gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Source: INEC and WBG staff calculations

Table 4 – Panama: Fiscal Operations of the Non-Financial Public Sector: 2017-2025

| | 2017 | 2018 | 2019 | 2020 ^e | 2021 ^p | 2022 ^p | 2023 ^p | 2024 ^p | 2025 ^p |
|------------------------------------|--------------------------|-------------|-------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Non-Financial Public Sector | As percent of GDP | | | | | | | | |
| Total Revenues (and grants) | 20.0 | 19.6 | 18.3 | 18.4 | 20.1 | 21.1 | 21.5 | 19.2 | 19.4 |
| Tax revenues | 14.9 | 14.7 | 13.8 | 13.3 | 14.9 | 15.7 | 16.1 | 13.7 | 13.7 |
| Taxes on goods and services | 4.3 | 4.0 | 3.8 | 3.2 | 4.4 | 4.6 | 4.7 | 3.8 | 3.8 |
| Direct Taxes | 4.9 | 5.1 | 4.4 | 4.3 | 4.5 | 5.1 | 5.3 | 4.2 | 4.2 |
| Social insurance contributions | 5.7 | 5.6 | 5.6 | 5.8 | 5.9 | 6.0 | 6.1 | 5.6 | 5.7 |
| Non-tax revenues | 5.1 | 4.9 | 4.5 | 5.2 | 5.3 | 5.4 | 5.4 | 5.5 | 5.7 |
| Canal revenues | 3.7 | 3.9 | 4.0 | 5.1 | | | | | |
| Expenditures | 21.9 | 22.5 | 21.8 | 28.7 | 27.3 | 25.9 | 25.0 | 21.1 | 20.9 |
| Current expenditures | 15.4 | 15.9 | 16.3 | 21.6 | 19.5 | 18.7 | 17.7 | 16.0 | 15.8 |
| Wages and compensation | 4.6 | 4.8 | 4.8 | 6.3 | 5.9 | 5.7 | 5.4 | 5.0 | 5.0 |
| Goods and services | 1.0 | 1.2 | 1.2 | 1.6 | 1.5 | 1.4 | 1.4 | 1.3 | 1.3 |
| Interest payments | 1.7 | 1.8 | 1.9 | 2.8 | 2.8 | 2.8 | 2.4 | 2.3 | 2.1 |
| Current transfers | 8.0 | 8.1 | 8.4 | 10.8 | 9.3 | 8.8 | 8.5 | 7.4 | 7.4 |
| of which: | | | | | | | | | |
| Pensions | 5.2 | 5.2 | 5.2 | 7.0 | 6.8 | 6.5 | 6.3 | 6.0 | 5.8 |
| Social Assistance | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 |
| Capital expenditures | 6.5 | 6.6 | 5.5 | 7.1 | 7.8 | 7.3 | 7.2 | 5.1 | 5.1 |
| Overall Balance | -1.9 | -2.9 | -3.5 | -10.3 | -7.2 | -4.8 | -3.5 | -2.0 | -1.5 |
| of which: Primary balance | -0.1 | -1.1 | -1.6 | -7.5 | -4.4 | -2.1 | -1.1 | 0.3 | 0.7 |
| NFPS Financing | 1.9 | 2.9 | 3.5 | 10.3 | 7.2 | 4.8 | 3.5 | 2.0 | 1.5 |
| External (net) | 2.8 | 3.6 | 8.0 | 6.3 | 3.8 | 5.2 | 1.8 | 1.3 | 0.7 |
| Domestic (net) | -1.0 | -0.7 | -1.5 | 4.0 | 3.4 | -0.4 | 1.7 | 0.7 | 0.8 |
| Memorandum items | | | | | | | | | |
| Gross Public Sector Debt | 37.6 | 39.6 | 46.4 | 69.8 | 69.0 | 67.8 | 66.5 | 65.6 | 63.6 |

Source: Ministry of Economy and Finance and WBG staff calculations



2.3. IMF RELATIONS

30. **Since the outbreak of the pandemic, Panama has taken advantage of the resources made available by the IMF.** It tapped US\$515 million under the Rapid Financing Instrument (RFI) in April of 2020 and in January of 2021 it obtained a PLL for US\$2.7 billion, valid for two years. The PLL is a precautionary facility that only disburses at the request of the country. Panama is treating the PLL as an insurance against extreme shocks arising from eventual deterioration in the COVID-19 crisis. Panama qualified for the PLL due to its sound economic fundamentals, strong institutional policy frameworks, long track record of good economic performance and policy implementation, and its commitment to maintain such policies in the future. The policy agenda will focus on facilitating Panama's prompt exit from the Financial Action Task Force (FATF) grey list, strengthening data adequacy, and improving public financial management, as well as preparing the economy for the post-pandemic recovery. The PLL had its first successful review in August 2021.

3. GOVERNMENT PROGRAM

31. **Panama has a comprehensive and integrated disaster risk management program.** The National Civil Protection System (SINAPROC) has been in place since 1982, as a specialized institution under the Ministry of Government. SINAPROC coordinates emergency preparedness and response actions and promotes risk prevention and reduction. The DRM (Comprehensive Disaster Risk Management) Cabinet, established at the highest level in 2021, has a mandate to coordinate and ensure the implementation of DRM actions and measures in the public sector. This new institutional arrangement is responsible for: (a) coordinating all DRM agencies and activities in Panama; (b) executing the actions, regulations and directives aimed at mitigating the impacts of disasters on human lives, goods and society; (c) developing and implementing the National Emergencies Plan and the country's Risk Management Plan; (d) coordinating the National Platform for Disaster Risk Reduction (NPDRR); and (e) coordinating the implementation of sectoral and multisectoral DRM programs. In addition, the National Environment Authority (*Autoridad Nacional del Ambiente*, ANAM) and the Canal Watershed Inter-Institutional Committee have integrated DRM and climate change in their national agendas, so that they take account of the impacts of the climate disasters—floods and landslides—that have the most destructive impacts on communities, agricultural productivity, the road system, housing and the Panama Canal.

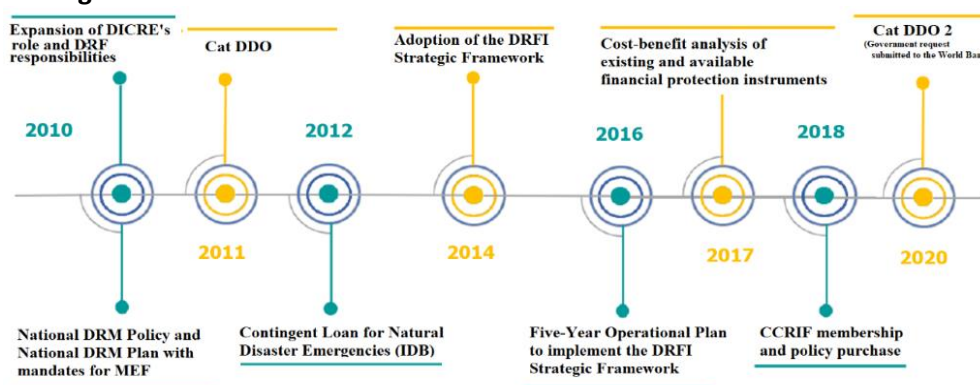
32. **The government's enactment of PNGIRD in 2010 stands as a transformational action toward a comprehensive DRM strategy.** The PNGIRD is fully aligned with the Central American Integration System's (*Sistema de Integración Centro Americano*, SICA) and the Central American Policy for Comprehensive Disaster Risk Management, PCGIR, signaling the Government's commitment to move toward a more proactive, comprehensive DRM approach. The PNGIRD clarified the DRM responsibilities of line ministries and relevant government agencies and laid out the legal framework for MEF to play a leading role. The expansion of authority and responsibilities of MEF included the creation of a Directorate of Investment, Concessions and Risks (*Dirección de Inversiones, Concesiones y Riesgos del Estado*, DICRE) in 2011, the development of a comprehensive DRFS framework and implementation plan, and the diversification of disaster risk financing instruments.

33. **As part of the government's efforts to strengthen its overall DRM program, the first World Bank-financed DPL with a Cat DDO in 2011 played an important role in strengthening the institutional and legal frameworks for DRM.** The first operation addressed three policy areas: (a) the need to update the country's DRM policy framework and guidelines; (b) the need for the establishment of an adequate institutional framework to



efficiently implement the DRM National Policy; and (c) the need for a clear institutional mandate for the relevant government agencies to fully address their responsibilities for financial protection against disasters. Under the first operation, the DRM policy framework and guidelines were updated through the enactment of the PNGIRD. In addition, the 2010-2014 Government Strategic Plan was adopted to efficiently implement the PNGIRD; and MEF was given an explicit institutional mandate for financial protection against disasters. The government successfully achieved the operation's targets and expected outcomes, as demonstrated in the recent Implementation Completion and Results Report (ICR) of the first DPL with a Cat DDO, including: (a) a substantial increase in its technical and institutional capacity for DRM; (b) implementation of key DRM priority actions by relevant line ministries and government agencies; and (c) adoption of a framework for the financial management of disaster risk that includes a comprehensive set of financial protection policies, strategies and instruments (Figure 6). In addition, Panama became party to several international climate change and DRR commitments, such as the Sendai Framework for Disaster Risk Reduction (2015), the Paris Agreement (2016) and the Regional Logistics Center for Humanitarian Assistance (2017). The Logistics Center is being supported by the United Nations Office for Project Services (UNOPS).

Figure 6. Timeline for the Development of Panama's Comprehensive Disaster Risk Financing and Insurance Program



34. In recent years, the Government of Panama has been in the process of modernizing its institutional approach and addressing the gaps in its DRM institutional arrangements, to address the evolving disaster risk profile of the country more effectively. Until 2010, Panama's institutional framework was inadequate to cope with the complexity of disaster risk and did not include all the necessary components of DRM—prospective, corrective, and compensatory risk management. Instead, the focus was limited to disaster preparedness and response, while risk prevention and reduction, disaster recovery, and a mandate for coordination and implementation were not included in the institutional structure. As part of the modernization, several sector ministries have established strategies and plans for DRM and for emergency preparedness and response within their own areas of responsibility. The Ministry of Health (*Ministerio de Salud, MINSA*) approved a DRM Strategic Plan (2018-2025) that defined specific sectoral responsibilities, with the aim of reducing the risk to and ensuring the continuity of health services. As a component of this strategic vision, the Ministry adopted a Disaster Preparedness and Response Plan (2018-2021), which served as the basis for its response to the COVID-19 pandemic.

35. The government's effort to strengthen its institutional DRM capacity has included the development of a budget classifier. Since 2011, the Directorate of Investment Programming (*Dirección de Programación de Inversiones, DPI*), a specialized unit within the MEF, has been engaged in building a roadmap to incorporate



disaster risk analysis into public investment programming. With technical support from the World Bank's Global Facility for Disaster Reduction and Recovery (GFDRR), the DPI developed a DRM budget classifier to improve the government's capacity to track and report expenditures on DRR-related activities and investments. MEF approved the creation of the DRM budget classifier as part of the National Budget's classification system; it allows government agencies to track DRM investment proposals and the resources earmarked for ex ante DRM interventions (Resolution No. 030, March 2013). The DRM classifier and the methodology for its implementation were piloted in 2017 as part of the redesign of the National Public Investment System (*Sistema Nacional de Inversión Pública de Panamá*, SNIP) and were used in Budget preparation cycles from 2018 through 2020. The DPI has also incorporated disaster risk analysis guidelines into the SNIP Procedures Manual and has developed guidelines for integrating disaster risk evaluations into public investment assessments. This experience will also allow the government to implement other budget classifiers beyond DRM, such as a climate change classifier, to allow for the tracking of mitigation and adaptation-related investments, and an environment classifier. Both classifiers are under development by MEF.

36. The government's Strategic Plan (PEG) 2019-2024 recognizes that Panama has suffered substantial loss of life and damage to assets due to the impacts of climate change and unresolved DRM capacity constraints. The PEG notes that some of these adverse impacts could have been avoided with a better institutional framework for managing disaster risk, as well as adequate financial and training support to SINAPROC and first responders. While the PEG emphasizes the need to manage and reduce climate and disaster risk factors, including at subnational levels, it also emphasizes that—even with the Association of Municipalities of Panama (*Asociación De Municipios De Panamá*, AMUPA) as a strategic partner—there is not sufficient local technical capacity to allow SINAPROC to effectively decentralize its DRM responsibilities. In 2021, to address the need to strengthen local disaster risk management and territorial resilience, the government created a Territorial Development Directorate within MEF. The Directorate is charged with developing capacities in the provinces to integrate DRM and CCA in their territorial development strategies. Territorial capacity building efforts will focus on: (a) municipal governments that have been prioritized by SINAPROC and the CCA Directorate according to their vulnerability to disaster and climate risks; (b) strengthening the capacities of the Provincial Technical Boards (*Juntas Técnicas Provinciales*); and (c) approaches toward groups of municipalities in a region based on regional dimensions of risk.

37. In response to the effects of the COVID-19 pandemic, the government is taking additional actions toward consolidating the country's overall DRM capacity. These actions include: (a) strengthening the institutional capacity of SINAPROC; (b) reducing vulnerabilities in urban areas; (c) developing the country's risk assessment and monitoring capacity; (d) developing risk reduction strategies for emergency response and diversified risk management instruments; and (e) strengthening environmental institutions.

4. PROPOSED OPERATION

38. The Program Development Objective (PDO) of the proposed DPL with a Cat DDO operation is to enhance the Government of Panama's technical and institutional capacity to manage the disaster risk resulting from the occurrence of natural and health-related hazards, including the adverse effects of climate change and disease outbreaks. This objective will be achieved through strategic support to policy, regulatory and institutional reforms implemented by the government in furtherance of its DRM program. The operation builds on the successful implementation and achievements of the first DPL with a Cat DDO and reflects the ongoing policy dialogue and collaboration between the Bank and the Government of Panama on DRM and CCA. The



proposed operation is fully aligned with the government's DRM program and its efforts to strengthen identified institutional, financial and policy gaps. It is also closely aligned with the priorities under the Government Strategic Plan (PEG) 2019-2024. Structured around three policy areas, the operation supports strategic interventions aimed at integrating climate, natural hazard and gender-responsive climate risk reduction considerations into the government's investment planning processes.

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

39. **The DPL with a Cat DDO operation will support the government's efforts, throughout the ongoing COVID-19 pandemic, towards consolidating the country's overall disaster risk management capacity.** It seeks to prevent and reduce the underlying exposure and vulnerability factors and improve disaster risk preparedness and emergency response to the negative impacts of climate change, natural hazards and health events. The first DPL with a Cat DDO, in the amount of US\$66 million, was put in place to complement existing (as of 2010) risk financing instruments in the country and provide protection against cumulative, medium-sized and major disasters. Building on the progress achieved under that operation, including its three extensions, this second DPL with a Cat DDO will strengthen the government's efforts to mitigate the social and economic impacts of adverse climate and natural events, including by protecting the lives and livelihoods of the most vulnerable from their large and lasting impacts. It will also help to strengthen financial resilience against climate change and other external shocks at all levels of government administration.

40. **This operation will support policy reforms focused on DRM and CCA, and on financial resilience to compound disaster risks.** All Prior Actions will directly contribute to building climate resilience. Prior Action 1 will support the institutional framework for improving comprehensive disaster risk management as well as institutional capacities to respond to multi-hazard and climate events. Prior Action 2 aims at improving disaster health preparedness and response, particularly for diseases that can be exacerbated by climate change. Prior Action 3 will support operationalization of the recently created National Meteorological and Hydrological Service (NMHS) as an autonomous government agency tasked with improving the tracking, identification, forecasting and risk management of hydrometeorological events. Prior Action 4 will help to embed a prospective territorial approach into climate change vulnerability assessments through the promotion and incorporation of DRR/CCA considerations and resilience-building interventions into the design of subnational planning instruments.

41. **The proposed operation will also support the integration of gender-specific considerations into overall DRM actions at the national and sector levels.** Gender bias in recruitment and fewer opportunities for training and professional development often hinder women's access to male-dominated organizations such as Panama's Civil Protection System. The reform to the Civil Protection Career Statute under Prior Action 1 will provide an opportunity to strengthen the capacity of the human resources management system to address significant gender gaps in female labor force participation. Actions identified under this operation will be supported by citizen engagement processes. Applying an intersectional gender approach within the DRM institutional framework will help to leverage the capacities of subnational governments to support vulnerable communities and groups.

42. **The proposed operation provides a dedicated line of contingent financing to enable the government to quickly disburse funds upon the declaration of a qualified State of Emergency (*Estado de Emergencia*) resulting from a natural catastrophe, including public health emergencies.** The DPL with a Cat DDO also allows Panama to prepare for climate disasters and epidemics by securing access to financing before a disaster materializes and



before funds from other sources (e.g., concessional funding, bilateral aid, reconstruction loans) are mobilized. By combining an important liquidity tool with the equally important component of DRM policy advice and dialogue, the operation will provide adequate resources and technical assistance to enhance the sustainability of reforms and support the achievement of program outcomes. This approach will contribute to breaking the vicious cycle of unresolved social and economic development gaps that exacerbate the impacts of recurrent shocks on vulnerable populations.

43. **Funds may be drawn upon the declaration of a State of Emergency in the Panama's territory, as a result of an imminent or occurring natural catastrophe generated by natural phenomena or health related events (such as hurricanes, earthquakes, pandemics, etc.), under terms and conditions specified in the Loan Agreement.** For the purposes of this operation, a "State of Emergency" means a declaration by Panama, through a Cabinet Resolution (*Resolución de Gabinete*), of a State of Emergency due to a natural catastrophe generated by natural phenomena or health-related events, pursuant to Panama's Law No. 7 of February 11, 2005³⁷ and any other legal instrument compatible with the existing regulation of a State of Emergency, that Panama may introduce from time to time with the prior agreement of the World Bank. The financial features of a DPL with a Cat DDO are similar to those available for other DPLs with Deferred Drawdown Options, with one exception: the DPL with a Cat DDO has a revolving feature; that is, amounts repaid prior to the closing date would be available for subsequent drawdown. The drawdown period for this operation will be three years. The DPL with a Cat DDO may be renewed four times for up to three years each time, for a total deferral period of 15 years. Renewals require that the Member Country's implementation of the program set out in its letter of development policy (LDP) remains satisfactory to the World Bank and that the macroeconomic policy framework is adequate. Renewals will take place no earlier than one year, and no later than six months, before the closing date of each three-year period.

44. **The design of the second DPL with Cat DDO builds on lessons learned from the first operation.** A large part of the transformational impact of the first DPL with a Cat DDO (see Annex 6 for more details) can be attributed to the effective DRM/CCA policy dialogue between the Government of Panama and the World Bank's extended teams throughout its nine-year implementation period. In addition, the rapid availability of liquidity to address the financing gap created by the economic and social shocks from natural and health-related events, such as the dry season during 2015/2016 and the COVID-19 pandemic, clearly demonstrated the critical role of this contingency financing instrument in the context of the country's DRF strategic framework. Equally important was the operation's contribution to advancing the country's DRM and CCA agenda, including by leveraging the World Bank's global technical expertise and convening power to break through knowledge and technical silos. The policy dialogue around the supervision of the first DPL with a Cat DDO promoted effective internal communications among government agencies and other relevant DRR stakeholders. During the operation's preparation, as well as throughout its implementation period, the DRM policy dialogue contributed to the promotion and inclusion of DRM/CCA considerations in the country's public investment planning and prioritization processes. It also encouraged the authorities to tackle important policy issues, enact enabling regulations and strengthen the institutions needed to ensure that social and economic programs are inclusive, well targeted and environmentally sustainable.

³⁷ Pursuant to Law No. 7 of February 11, 2009, "Law that Reorganizes the National Civil Protection System", published in Official Gazette No. 25236, on February 14, 2005, SINAPROC is entitled to formulate a recommendation to the Executive Power for the declaration of a State of Emergency. Even though SINAPROC can make such recommendation, the declaration of a State of Emergency has to be made, through a Cabinet Resolution (*Resolución de Gabinete*) by the Executive Branch.



45. **The design of the proposed operation is also informed by lessons learned from CAT DDOs delivered by the World Bank in multiple countries across regions.** The experiences of DPL with Cat DDOs in other countries, including Colombia, Costa Rica, El Salvador, Honduras, Peru and the Philippines,³⁸ comprising closed and ongoing operations, show that: (a) DRM policy formulation and reforms are most effectively implemented when they are based on adequate identification of both physical and fiscal risk; and (b) a DPL with a Cat DDO operation should be designed within the context of a broader DRFS that combines risk retention and risk transfer instruments to efficiently manage contingent liabilities associated with adverse climate and natural events. In keeping with these lessons, the design of the proposed DPL with a Cat DDO included: (a) adequate preparatory work with meaningful stakeholder consultations; (b) targeted technical support aimed at enhancing the government's understanding of the country's evolving complex and differentiated disaster risk profile; (c) strengthening the government's awareness of its contingent liabilities and contingency financing needs; and (d) adequate supervision support during the life of the operation to help advance the reform program while building local capacity to achieve medium and long-term goals and measurable outcomes. All of these actions are essential for fostering stakeholder ownership of the reform agenda.

46. **Lessons learned from Panama's first DPL with a Cat DDO and emergency-related recovery operations have become even more relevant for the design of this operation due to the COVID-19 pandemic.** COVID-19 has greatly affected Panama's economy and depleted the government's resources to finance disaster preparedness and response if another catastrophic event were to materialize. Panama's multi-hazard risk profile is rapidly worsening. Climate-induced shocks such as landslides, extensive flooding and protracted drought, as well as earthquakes and volcanic eruptions, are becoming more frequent and intense. Other factors driving the worsening situation include: (a) population growth, changes in internal migration patterns and urbanization trends; (b) increased concentration of physical assets, resulting in high exposure to known hazards; (c) loss of agricultural productivity and agricultural livelihoods due to climate variability and land degradation, resulting in increased food insecurity; and (d) increased incidence of water and vector-borne disease outbreaks due to environmental degradation, changing rainfall patterns and floods.

47. **The operation addresses the following policy areas:**

- **Policy Area 1.** Strengthening the institutional framework for management and response to the impact of climate and disaster risk in a post-COVID context.
- **Policy Area 2.** Strengthening climate risk hazards identification and disaster risk assessment capabilities.
- **Policy Area 3.** Development of territorial responsibilities for disaster risk management.

Prior Actions under these policy areas are described in the following section.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

- **Policy Area 1. Strengthening the institutional framework for management and response to the impact of climate and disaster risk in a post-COVID context**

³⁸ As reflected in the Independent Evaluation Group (IEG) report, "Hazards of nature, risks to development: an IEG evaluation of World Bank assistance for natural disasters" (2006) and the IEG reports on the Peru and the Philippines Cat DDOs (2017).



48. **Since the creation of SINAPROC in 1982, the Government of Panama has been steadily updating and improving its DRM regulatory and institutional framework.** SINAPROC has undergone a continuous process of technical capacity improvements, which are reflected in its increased emergency preparedness and response capabilities. SINAPROC's limited authority and limited financial and technical resources to carry out other key aspects of DRM, particularly ex ante risk reduction interventions, motivated the government to expand SINAPROC's responsibilities, as well those of other public entities. However, the lack of a multi-sectoral and territorial structure for the climate and disaster risk reduction mandates continues to be a critical gap in disaster risk management at the national, sectoral and territorial levels.

***Prior Action 1:** The Borrower has taken measures to strengthen the institutional framework for disaster risk management by creating: (a) the Civil Protection career; and (b) a Comprehensive Risk Management Cabinet with the mandate to promote guidelines, national policies, strategic plans and programs aiming at reducing disaster risks in a comprehensive manner and to foster economic, sanitary, cultural and education resilience, as evidenced, respectively, by (a) Law No. 233, dated August 24, 2021, and published in the Official Gazette on August 25, 2021; and (b) Executive Decree No. 251 of August 24, 2021, and published in the Official Gazette on August 30, 2021.*

49. **Rationale:** The National Policy for Integrated Disaster Risk Management (PNGIRD), approved by Executive Decree in 2010, introduced a modern conceptual framework and outlined sectoral and territorial responsibilities for DRM. However, the highest legislative framework for the coordination of disaster risk management still lies in Law No. 7 of 2005, published in the Official Gazette No. 25236 on February 14, 2005. Article 5 of the Law 7 established SINAPROC's responsibility for planning, research, management, supervision and organization of policies and actions aimed at preventing material and psychosocial risks, and for calibrating the levels of risk that natural and anthropogenic disasters may cause. To this end, SINAPROC was tasked with the following functions:

- Promoting a national risk management plan and incorporating DRM as a cross-cutting axis in the country's development processes and plans, with the aim of reducing existing vulnerabilities and the impact of disasters throughout the national territory.
- Formulating and implementing strategies and plans for vulnerability reduction and risk management in each of the social and economic sectors, to protect the population, basic and productive infrastructure and the environment.
- Promoting education, analysis, research and technical and scientific information programs on natural and anthropogenic threats, by collaborating and coordinating with state agencies and private and international entities in the education, social and scientific sectors.
- Promoting or proposing to the Executive Branch the design of plans and the adoption of regulatory standards on civil security and protection throughout the national territory.

50. **In addition, Article 6 of Law 7 delegated to SINAPROC the responsibility for immediately responding to disaster situations, whether of natural, technological or man-made origin.** Article 8 specified that SINAPROC would give special attention to disaster prevention and risk prevention measures. However, Law 7 did not create the basis for a professional Civil Protection System. Further, it was not updated to reflect the DRM-focused policies introduced by the PNGIRD in 2010, or to fully reflect the vision and guidelines of the current global roadmap for DRR set by the Sendai Framework for Action 2015-2030.



51. **To address biases in recruitment and access to opportunities as well as women's underrepresentation in the Civil Protection System, the government has continued the DRM legal and institutional framework reform, so it can properly address climate and disaster risks and current challenges and associated sectoral and territorial responsibilities promoted by the PNGIRD.** The policy reform process has led to a revamped National DRM and Civil Protection System, underpinned by an improved regulatory and institutional framework. The reforms have raised the institutional profile and enhanced the governance structure for coordination of the country's DRM agenda at the sectoral and territorial levels. Reforms have included professionalization of the Civil Protection career, enhanced capacities to identify climate and disaster risk and reach groups with specific vulnerabilities, including women, the elderly, children, among others, as well as coordinated emergency and disaster response to pandemics, taking into account gender-differentiated risks, needs, and opportunities.

52. **Substance of Prior Action:** The creation of the Civil Protection Career in 2021 (Law 233 of August 2021) and professionalization of staff strengthened SINAPROC's institutional framework by clarifying its functions and competencies and improving the organization's governance and working environment. The updated organizational structure added the new position of Risk Manager, as well as other new positions, and defined formal avenues for career advancement. The reform also provided an opportunity to strengthen the human resources management system and address gender gaps in female labor force participation. The creation of the GIRD Cabinet indicated the government's commitment to mainstream climate and DRM into national policies and multisectoral programs at the highest level, including the National Climate Change Strategy and the Multi-hazard Response Plan to emergencies and disasters in the health sector (Prior Action 2). The Cabinet's structure includes: (a) a political/strategic level, with the participation of the president, vice president and eleven ministers; (b) a technical level, carried out by the Cabinet's Technical Secretariat; and (c) an operational level, composed of at least 38 institutions and agencies responsible for implementing plans, programs and projects. A strengthened SINAPROC will be able to play a more proactive role in the DRM Cabinet at all levels, particularly in areas pertaining to improved preparedness, response and recovery.

53. **The creation of the DRM Cabinet at the highest political level and with a broad cross-sectoral mandate will close the historical gap related to prospective and corrective climate and disaster risk management, beyond simple preparedness and response.** This provides a unique opportunity to ensure inter-institutional coordination and synergies for climate adaptation and DRM with regard to new relevant developments. The Cabinet's political level is composed of 11 Ministers and the President/Vice-president and represents the highest level of coordination and decision-making to ensure the interaction of all institutions and agencies involved in DRM. The Cabinet's operational level working groups will play a critical role in coordinating climate and natural hazard identification and monitoring, which will create the knowledge needed to prioritize DRR investments across sensitive social and economic sectors. The working groups, representing different technical areas, will work with the Cabinet's Technical Secretariat in discussing and endorsing multisectoral approaches to mainstream DRM. Some of the agencies that will play a critical role in the operationalization of the DRM Cabinet include the recently created NMHS, which is expected to undertake critical responsibilities regarding the country's Early Warning Systems (EWS); the recently created Directorate for Territorial Development within the MEF, which will undertake responsibilities related to transferring capacities for risk-informed territorial planning to provinces and municipalities; the Comprehensive Disaster Risk Management Office of the Health Sector (*Oficina Integral para la Reducción del Riesgo de Desastres en Salud*, OIRDS); and the departments for Climate Adaptation and Resilience, Climate Action, and Environmental Risks created under the Ministry of Environment. This broad participation framework, converging in the Cabinet's institutional arrangements, guarantees that the



strategic approach of this DPL with a Cat DDO, including all Prior Actions and derived results, is articulated, and carried out in a systemic way.

54. **Gender-specific actions and indicators under Prior Action 1:** Gender bias in recruitment and fewer opportunities for training and professional development often hinder women's access to male-dominated positions. A Gender Gap Report, prepared by the World Bank for Central America,³⁹ identified gaps in the implementation of a gender approach in comprehensive DRM, including education and training, allocation of economic and technical resources, information disaggregated by sex and effective participation of women in DRM activities. The Civil Protection Career Law will enable SINAPROC to certify qualified Civil Protection professionals and promote an agenda that bridges existing gender gaps in the Civil Protection and Disaster Risk Management System by substantially increasing women's participation in the organization. SINAPROC has already made important progress in promoting the participation of women and vulnerable groups in civil protection. Out of a total of 248 staff within SINAPROC, 82 (33 percent) are women. Moreover, out of the 34 management-level staff within the system, 11 positions (32 percent) are occupied by women. Civil protection core actions in the field, such as disaster response, are based on a strong and well-trained volunteer system, composed of 1,872 people of which more than 40 percent are women. In total, out of the 2,120 members of the Civil Protection General Directorate⁴⁰ 834 (39 percent) are women. Based on the experience and feedback from SINAPROC's management, the actual gap in women's participation in areas such as first response and early recovery vis-à-vis administrative positions arises from the lack of incentives for women, and the lack of access to capacity building and equal career growth opportunities. Building on the stronger representation of women in other areas of DRM, including management positions, this Prior Action will focus on strengthening the regulatory framework, creating incentives for the Civil Protection General Directorate to reach gender parity (50 percent women's participation), and implementing measures, including equal access to training and career opportunities, to incentivize women's participation in disaster response and recovery operations.

55. **Expected results:** With a professionalized Civil Protection System and the legislative basis for an enhanced governance structure for DRM coordination, the government will be able to substantially contribute to reducing climate and disaster risk and enhance resilience against such hazards. The implementing regulations for the Civil Protection Career Law will include provisions to increase women's representation in DRM and civil protection agencies. Provisions may include affirmative actions to promote equal access to opportunities, non-discrimination criteria in recruitment processes and harassment prevention. It will also create various incentives, in line with the National Policy on Gender Inclusion and informed by international best practices, to develop women's professional capacities through access to training and career progress/mobility opportunities. The creation and operationalization of the DRM Cabinet through appointment of the Technical Secretariat and the conformation of technical working groups in charge of discussing, proposing and approving multisectoral programs and plans, will bring the Comprehensive Disaster Risk Management National Policy into line with the Sendai Framework for Action. Such programs and plans may include government priorities such as MINSA's Multi-hazard Response Plan and the National Climate Change Adaptation Strategy, among others. The creation of the Civil Protection career will enhance SINAPROC's standards for security and civil protection personnel throughout the national territory, while empowering women to lead and promote gender-equitable and universally accessible response, recovery, rehabilitation and reconstruction approaches.

³⁹ World Bank. 2021. Strengthening the implementation of the gender equality agenda for disaster risk management (DRM) in Central America Analysis Report

⁴⁰ The Civil Protection General Directorate includes staff and registered volunteers.



PA1. Results indicators:

| PA1. Indicator Name | Baseline | Target |
|---|-----------|-------------|
| PA1. Results indicator 1A. Percentage of SINAPROC's staff certified as risk managers nationwide as per the new Civil Protection Career provisions (type percentage) | 0%; 2021 | 35%; [2025] |
| PA1. Results indicator 1B. Percentage of female members within the Civil Protection General Directorate (type percentage) | 39%; 2021 | 50%; [2025] |
| PA1. Results indicator 1C. Number of multisectoral programs endorsed by the DRM Cabinet (type number) | 0; 2021 | 4; [2025] |

56. **Global experience has shown that countries with well-established public health-related emergency preparedness and response mechanisms move more quickly from detection to response, resulting in a smaller number of illnesses and deaths.** As one of the most important maritime hubs in the world as well as a major international hub for air travel, Panama is at risk of exposure to a number of serious transmissible diseases, including HIV, SARS, Avian Flu, Ebola and Zika as well as COVID-19, all of which could pose a threat to the country's population and economy. Panama needs to effectively monitor, coordinate and control disease outbreaks, including those exacerbated by climate change, through well-established emergency preparedness and response plans and operations. Despite's the government comprehensive approach to the ongoing COVID-19 pandemic, the evolving situation has shown important technical, institutional and coordination gaps that affect the country's capacity to quickly and effectively address major public health-related emergencies, especially when caused or compounded by climate-induced impacts such as floods, droughts, and hurricanes. Such gaps need to be bridged to ensure seamless operation of the entire national health system before, during, and after the materialization of a public health-related emergency, as well as during concurrent climate emergencies when necessary.

Prior Action 2: *The Borrower has taken measures to strengthen and consolidate its capacity to comprehensively manage and prevent emergencies and disasters, including disease outbreaks, epidemics, pandemics, and those exacerbated by climate change by: (a) adopting tools and protocols for response to multi-hazard emergencies and disasters in health; and (b) establishing the authority, leadership and oversight for comprehensive disaster risk management within the Ministry of Health to the Comprehensive Disaster Risk Management Office of the Health Sector, as evidenced by Ministerial Resolution No. 900, dated December 20, 2021, and published in the Ministry of Health's website.*

57. **Rationale:** In 2018, Panama's health sector adopted a comprehensive Health Disaster Risk Management Strategic Plan 2018-2025. The strategic framework included a Disaster Preparedness and Response Plan for the sector, which played a key role in the management of the COVID-19 emergency. However, the experiences of several emergencies, and particularly COVID-19 and climate emergencies such as hurricanes, revealed the need to enhance the health preparedness and response mechanism to address emerging epidemics and pandemics, including those exacerbated by climate change and complex multi-hazard disasters. The lack of plans and specific protocols hinders a rapid and effective response, and the lack of proper preparation often results in disorderly



control measures, confusion about how to manage the response,⁴¹ and poor communication and targeting.⁴² Simulation exercises are an effective way to test existing plans and protocols and propose timely adjustments to ensure that the right institutional arrangements are in place for effective monitoring and planning for disease outbreaks, to prevent them from becoming public health emergencies. Some diseases, including vector- and water-borne illnesses, are expected to become more widespread due to climate change impacts such as higher temperatures, increased flooding, hurricanes and food insecurity.⁴³ Increasing health preparedness and response will help the country to better adapt to these emergencies in the future.

58. **Substance of Prior Action:** This Prior Action supports efforts by MINSA to develop the appropriate institutional setup to coordinate prevention, preparedness, mitigation, response and rehabilitation in the case of emergencies and disasters, including outbreaks of disease exacerbated by climate change. These actions entail: (a) development of a Health Emergency Operations Center Handbook and the Safe Hospitals Program, and the adoption of specific protocols for disaster response in the occurrence of earthquakes, tsunamis and pandemics; and (b) creation of the Comprehensive Disaster Risk Management Office of the Health Sector (OIRDS) as a specialized office within MINSA for implementation of its DRM program at all territorial levels. With the support of the Pan American Health Organization (PAHO), specific preparedness and response protocols have been designed for OIRDS through an extended consultation process. The OIRDS will be instrumental in implementing the government's Multi-hazard Response Plan, an updated version of which is in the process of being approved. Updating of the Response Plan is directly linked to Prior Action 1, given that it will be presented to and endorsed by the DRM Cabinet as part of its function of mainstreaming DRM into multisectoral policies and programs. It is also directly linked to Prior Action 4, considering that the Health DRM institutional structure, plans and instruments will operate at and coordinate with provincial and municipal levels.

59. **Even before the COVID-19 pandemic, MINSA had recognized the need to revisit the assumptions underlying its National Plan for Emergencies and Disaster Preparedness, Response and Recovery,**⁴⁴ given Panama's level of exposure and vulnerability to public health-related hazards. This plan, which later evolved into the Multi-hazard Response Plan, was launched in 2018 and is in the process of being updated through a participatory process coordinated by MINSA and in close collaboration with SINAPROC, the National Emergency Operations Committee, the Ministry of Environment and other relevant ministries, specialized national agencies, subnational authorities, non-governmental organizations and the private sector. The consultation process has also included technical guidance from specialized regional and international organizations, particularly PAHO/WHO (World Health Organization), the Council of Ministers of Health of Central America and the Dominican Republic (*Consejo de Ministros de Salud de Centroamérica y República Dominicana*, COMISCA), and the Coordination Center for the Prevention of Disasters in Central America and the Dominican Republic (*Centro de Coordinación para la Prevención de los Desastres en América Central y República Dominicana*, CEPREDENAC). The updated plan will reflect the government's COVID-19 response plan, as well as the pandemic contingency plans developed by COMISCA, CEPREDENAC, PAHO/WHO and other international organizations working in the health sector. The recognition of the National Multi-hazard disaster response plan and the mass emergencies

⁴¹ Lim, Sue, Tom Closson, Gillian Howard and Michael Gardam. 2004. Collateral damage: the unforeseen effects of emergency outbreak policies. *The Lancet Infectious Diseases*. 4. 697-703. 10.1016/S1473-3099(04)01176-4.

⁴² Crosier, Adam, Dominic McVey and Jeff French. 2015. By failing to prepare you are preparing to fail: lessons from the 2009 H1N1 'swine flu' pandemic. *European Journal of Public Health*, Volume 25, Issue 1 (February). <https://doi.org/10.1093/eurpub/cku131>

⁴³ <https://documents1.worldbank.org/curated/en/552631515568426482/pdf/122328-WP-PUBLIC-WorldBankClimateChangeandHealthDiagnosticMethodologyJan.pdf>

⁴⁴ Adopted by the government through MINSA's Resolution No. 0980 of 18 August 2016, published in the Official Gazette No. 28100-B on August 22, 2016.



management program, as well as the development of the Health Emergency Operations Center Handbook and the adoption of protocols for disaster response, will provide MINSA with tools that are adequate to Panama's risk profile. Further, the creation of the OIRDS to manage information and programs about risks that may impact the health of the population or the operation of the health network will provide MINSA with the institutional setup for successful implementation of the Multi-hazard Response Plan.

60. The creation of OIRDS, the adoption of new programs and protocols within MINSA, and the update of the Multi-hazard Response Plan are strongly linked to ongoing efforts to tackle the impacts of natural and climate-related hazards. For instance, the National Comprehensive Management Program for Reduction of Risks in Health⁴⁵ emphasizes the cross-sectoral and inter-institutional nature of health-related emergencies and disasters and defines clear responsibilities and procedures for different types of emergencies. Further, the Ministry of Environment's Climate Change Directorate has played a key role in the design of strategies and the distribution of responsibilities regarding the three types of disasters (floods, earthquakes and pandemics) that impact the health sector. Additionally, the newly created OIRDS will be instrumental in supporting the uninterrupted operation of the country's health network during an emergency through the establishment of a permanent information exchange system that will coordinate with other risk monitoring and emergency response agencies, including SINAPROC, the newly created NMHS and the Geosciences Institute.

61. Expected results: Through the update of the Multi-hazard Response Plan and the adoption of the Mass Emergencies Management Program, the Health Emergency Operations Center Handbook, the Safe Hospitals Program and specific protocols for disaster response, this Prior Action will strengthen the health sector's emergency and disaster preparedness. The sound operational procedures and mechanisms adopted by MINSA will be included in the updated Multi-hazard Response Plan and will improve public health-related emergency protocols in the event of floods, earthquakes, and pandemics. The updated Response Plan will also establish clear coordinating mechanisms across MINSA's OIRDS and SINAPROC. It will also serve as the framework for defining operational guidelines related to: (a) activation of the national command and control mechanism during imminent or evolving public health-related emergencies derived from the occurrence of pandemics or climate or natural events; (b) carrying out risk assessments, surveillance and response to different phases of the emergencies; (c) formulation of communication strategies; (d) rapid deployment of emergency prevention and treatment services; and (e) coordination of simulation exercises.

62. Simulation exercises play a critical role in the development, testing and implementation of preparedness and response plans at all levels of government, and in validating core capacities under the International Health Regulations monitoring and evaluation framework. MINSA, in collaboration with SINAPROC and other national and international stakeholders, will conduct simulations for public health-related emergencies, including those exacerbated by climate change. The simulations will test the pertinence and accuracy of the plans and protocols included in this Prior Action and will consider assessment tools based on international standards and best practices. After each simulation, corrective measures will be implemented and plans and protocols will be updated as appropriate. These emergency exercises may be coordinated with similar activities carried out by CEPREDENAC and COMISCA. Simulation exercises in autonomous regions will be coordinated with Indigenous Peoples authorities, and will address the specific needs of this population, including care requirements and cultural or linguistic adaptations in communication strategies.

⁴⁵ Ministerial Resolution No. 900, dated December 20, 2021



63. **Gender-specific actions and indicators under the Prior Action:** As part of the overall implementation of the Multi-hazard Response Plan to Emergencies and Disasters in the Health Sector, MINSA will ensure the adoption of globally recognized basic and essential health care services for women, non-binary and other vulnerable groups by liaising with relevant health units, particularly in relation to: (a) the identification of priority groups; (b) the delivery of medical attention to pregnant women, young children and persons with disabilities; (c) the delivery of psychological, clinical and legal support for gender-based violence (GBV) survivors; and (d) the delivery of psychosocial counseling for disaster survivors. MINSA will conduct a series of gender-sensitive simulation exercises to ensure that the delivery mechanisms for these interventions are tested on the ground.

PA2. Results indicators:

| PA 2. Indicator Name | Baseline | Target |
|---|----------|-----------|
| PA2. Results indicator 2: National-level simulation exercises to test multi-hazard response protocols carried out with satisfaction levels at or above 80 percent according to PAHO best practices. (Type number) | 0; 2021 | 2; [2025] |

• **Policy Area 2. Strengthening climate risk hazards identification and disaster risk assessment capabilities**

64. **Technical evaluations carried out as part of iGOPP show that Panama lags regional peers in its capacity to carry out systematic hazard identification and disaster risk assessments, particularly hydromet hazard monitoring and forecasting.** Panama's multi-hazard profile shows an increasing frequency and intensity of extreme hydrometeorological events. In particular, ENSO events have caused widespread drought across the entire country as recently as 2019. Confronted with this changing climate hazard risk profile, the government recognizes the need to increase its technical capacity for climate hazard identification and disaster risk assessment, in order to: (a) ensure the issuance of credible, timely and actionable early warnings during climate and hydromet-induced emergencies; (b) improve the situation of at-risk communities; and (c) reduce the government's contingent liabilities resulting from extreme hydrometeorological events.

Prior Action 3: *The Borrower has created the National Hydrometeorological Service institute as an autonomous government agency, as evidenced by Law No. 209, dated April 22, 2021, and published in the Official Gazette on the same date.*

65. **Rationale:** The Government of Panama has approved, on April 15, 2021, the creation of NMHS as a new autonomous government agency with the legal status and authority to own and manage assets, enter into contractual obligations and raise funds. A key responsibility of the NMHS will be the development of a National Policy on Meteorology and Hydrology.

66. **In the absence of a dedicated institution for hydromet monitoring and forecasting, these functions have been carried out in an uncoordinated fashion by individual institutions.** The state-owned transmission company (*Empresa de Transmisión Eléctrica*, ETESA) manages its own hydromet network, and the Panama Canal Authority has an integrated hydromet system that covers the Panama Canal watershed. However, neither of these entities has the authority to issue national hydrometeorological alerts or coordinate with other agencies involved in climate disaster risk preparedness and emergency response. To bridge this institutional and technical gap, the government has committed to creating, staffing and equipping NMHS in accordance with World Meteorological



Organization (WMO) guidelines, and to improving the institutional and regulatory framework for providing hydrometeorological information to the public. The proposed DPL with a Cat DDO will support this effort with technical advice from the World Bank's pool of hydrometeorology experts.

67. Substance of Prior Action: As the authoritative provider of credible, time-sensitive hydromet data and information to be input into multi-hazard early warning systems, the NMHS is expected to play a key role in improving the effectiveness of the agencies responsible for DRR and CCA, and in informing the government's investment planning processes. Currently, ETESA's hydromet network provides hydrologic forecasts to 42 hydroelectrical power stations to inform the planning of hydro and thermal energy distribution. The NMHS will incorporate new services that can inform other sectors and projects such as renewable energy (wind and photovoltaic power), for which forecasts are essential. Additionally, the NMHS is expected to work closely with the directorates of Water Resources and Climate Change on the hydrologic analysis of relevant basins for which information is not yet available (currently, only 11 of the 52 basins have updated information). This will allow for the development and implementation of water resources management planning and will inform relevant economic sectors on climate change impacts, projections and adaptation measures. Beyond hydrology analysis, the NMHS is expected to provide information on climate-induced temperature variations that could trigger health-related hazards.

68. Expected results: Improved knowledge of the country's hydrometeorological risk will directly reduce the adverse impacts of climate change and extreme weather and water-related events on at-risk populations. The NMHS will become the official government entity authorized to coordinate the provision of hydrometeorological services, including agrometeorological and other specialized services. NMHS's hydromet products and services will include enhanced hydrometeorological data to inform economic and/or productive activities and sectoral applications in areas of high vulnerability to climate hazards, including Indigenous Peoples' territories. In addition to the services already available to inform energy distribution, the NMHS is expected to work with the Ministry of Agricultural Development on implementation of participatory agroclimatic tables with three-month forecasts of climate-relevant data, including rain, temperature and humidity, to inform planning for different agriculture-related productive processes. NMHS will also be responsible for developing the country's National Policy on Meteorology and Hydrology, which will contribute to reducing the contingent liabilities from disasters and protecting macroeconomic stability and ongoing social programs for the poor.

PA3. Results indicators:

| PA3. Indicator Name | Baseline | Target |
|---|----------|-------------|
| PA3. Results indicator 3A: Approval of the NMHS's organizational structure, budget, and staffing plan by the Institute's board of directors (type binary) | No; 2021 | Yes; [2025] |
| PA3. Results indicator 3B: Number of economic activities and sectors informed through seasonal forecasts emitted by the NMHS. (type number) | 1; 2021 | 4; [2025] |

• Policy Area 3. Development of territorial responsibilities for disaster risk management

69. The decentralization process in Panama has extended the responsibilities of municipalities, but their ability to fulfill these increasing functions is constrained by their limited institutional and financial capacity.



The government has an important role in building the capacity of local institutions to manage the development of urban areas. In the Central American context, strengthening institutions for city management means strengthening municipal governments' capacities for territorial planning, financial management and investing; improving coordination with the central government, and developing intermunicipal cooperation for efficient management of urban agglomerations. The Government of Panama recognizes that the current regulatory and institutional framework for DRR/CCA constrains the effectiveness of interventions on the ground. Accordingly, the government is set to substantially increase the authority and responsibilities of subnational governments regarding land use and territorial management, as part of the ongoing devolution process mandated by the Law of Decentralization (Law No. 37 of June 2009). The National Government, through a coordinated multi-agency effort, will transfer technical expertise and resources to the country's subnational governments to build their capacity to develop and enforce their own territorial development plans, incorporating climate, environmental and natural-hazard profiles, as well as key socioeconomic characteristics of their territories. Such enhanced technical capacities and authorities are expected to help local governments improve their territorial investment planning and management processes, ensuring the long-term sustainability and climate adaptation of public and private investments.

70. To facilitate and coordinate this devolution, the government is introducing a major change to the current institutional and regulatory framework for territorial planning. The government is reviewing the organizational structure of MEF, which currently includes a unit responsible for territorial planning under the Vice Ministry of Economy's DPI. Recognizing that it is the responsibility of MEF to formulate comprehensive development policies, as well as to coordinate the national planning process with those of subnational governments, the government recently elevated the territorial planning unit to the level of Directorate of Territorial Development (*Dirección de Desarrollo Territorial*, DDT). The new Directorate's main responsibilities, under the supervision of the Vice Minister of Economy, will include the coordination of planning processes at all levels of government administration, and the provision of technical support to ensure that objectives are met for the integration of climate, environmental and natural-hazard considerations into territorial planning.

Prior Action 4: *The Borrower has created a Territorial Development Directorate and mandated, among its responsibilities, the planning and coordination of activities related to disaster risk reduction at the subnational level; as evidenced by Executive Decree No. 89, dated February 26, 2021, and published in the Official Gazette on the same date.*

71. Rationale: MEF's Territorial Planning Directorate will be responsible for drafting national development policy proposals for the benefit of the country's subnational regions, including the incorporation of DRM and CCA. MEF's senior authorities recognize that: (a) it is the Ministry's legal responsibility to lead the formulation and promotion of national development policies, as well as to coordinate and harmonize the national planning process with those of the subnational governments; and (b) these functions are currently constrained by internal organizational issues. The new Directorate will be responsible for integrating and coordinating the work and policies of relevant units within the MEF; as well as coordinating with the Decentralization Secretariat, the Ministry of Housing's Territorial Planning Directorate, the Ministry of Environment's Climate Change Directorate and SINAPROC, among other agencies, to ensure that climate and DRM considerations are mutually informed and embedded into the knowledge transfer and capacity building programs of territorial management units. The incorporation of disaster risk criteria in the elaboration of the urban and territorial plans is a concrete opportunity for local governments to contribute to building more resilient cities. This will require the strengthening of local planning capacities of the municipal teams, with technical support from the DDT and technical and research



institutions, as well as availability of disaster risk data in adequate formats to support the decision-making process.

72. **Substance of Prior Action:** To improve MEF's ability to effectively carry out these responsibilities, it is necessary to elevate the unit responsible for territorial planning to the level of a DDT under the Vice Ministry of Economy. The expansion of the new Directorate's authority and responsibilities is deemed necessary to enable it to: (a) lead interagency coordination, harmonization and coherence of land-use policies and territorial planning processes at all levels of government; and (b) through technical support and working directly with municipalities and provinces, promote the incorporation of DRR/CCA considerations as well as resilience-building interventions into the design of subnational territorial planning instruments. For instance, the DDT will leverage climate and disaster risk information produced by SINAPROC and the Ministry of Environment to identify the most vulnerable regions, which will help to prioritize capacity-building activities as responsibilities for risk and climate-informed planning are transferred to local governments.

73. **Since its creation, the DDT has been focused on training its national staff before proceeding with capacity building activities at the provincial level.** Under the proposed operation, the DDT will initially focus on strengthening territorial capacities in the country's 10 provinces, using a phased approach. The DDT will work with the provincial technical units (*juntas técnicas provinciales*) to guide the territorial planning process, with a focus on the most climate and disaster risk vulnerable provinces as per vulnerability assessments from SINAPROC and other agencies. This will result in significant progress toward decentralizing territorial planning responsibilities. Building on this work, the DDT will then provide technical support to municipalities for the formulation of local territorial plans that incorporate DRM and CCA, and for monitoring municipal projects according to the provisions set out in the Fiscal Social Responsibility Law (Law 34 of June 5, 2008).

74. **Expected results:** Under its new authority and responsibilities, the DDT will ensure the effective collaboration and coordination with relevant sector ministries and agencies for robust, climate and disaster-responsive territorial planning. The DDT will work with the National Secretariat for Decentralization⁴⁶ to reach municipalities, and will coordinate closely with SINAPROC and the Ministry of Environment's Climate Change Directorate to incorporate climate and DRM considerations into prioritizing vulnerable provinces for the first phase of capacity building and knowledge transfer. In coordinating with the agencies, the DDT will aim to create positive synergies and maximize the efficient use of public resources. This collaboration and coordination will be particularly important in the provision of technical support, aimed at building the capacity of the provinces to formulate territorial development plans with DRR and CCA criteria and monitor the implementation of municipal investment projects.

PA4. Results indicators:

| Indicator Name | Baseline | Target |
|--|----------|-------------|
| PA4. Results indicator 4: Percentage of territorial plans with DRM and CCA criteria validated by the Directorate of Territorial Development. (Type percentage) | 0%; 2021 | 40%; [2025] |

⁴⁶ The National Secretariat for Decentralization is a government agency, under the Ministry of the Presidency, responsible for ensuring compliance with the Decentralization Law (Law 37), including transferring revenues from property taxes back to the municipalities.



Table 5: Development Policy Loan - Prior Actions and Analytical Underpinnings

| Prior Actions | Analytical Underpinnings |
|--|---|
| Policy Area 1: Strengthening the institutional framework for management and response to the impact of climate and disaster risk in a post-COVID context | |
| PA#1, #2, #3, #4 | <p>Sendai, Japan. 2015 (March 14-18). Sendai framework for disaster risk reduction 2015–2030. In: UN world conference on disaster risk reduction. Geneva: United Nations Office for Disaster Risk Reduction. 2015. Available from: http://www.wcdrr.org/uploads/Sendai_Framework_for_Disaster_Risk_Reduction_2015-2030.pdf</p> <ul style="list-style-type: none"> The Sendai Framework for Disaster Risk Reduction 2015-2030 identifies four policy priorities: (a) Understanding disaster risk, (b) Strengthening governance to manage disaster risk, (c) Investing in disaster risk reduction for resilience, and (d) Enhancing disaster preparedness for effective response, and to “Build Back Better” in recovery and reconstruction. This international guideline encourages countries to develop and implement a systematic DRM approach and, in some cases, has led to strategic shifts in the management of disaster risks, with governments and other actors placing greater attention on disaster risk reduction compared to more reactive measures. This has included improvements in coordination among actors, enhanced early warning and preparedness, more rigorous risk assessments, and increased awareness. |
| PA#1 | <p>World Bank, 2013. Building Resilience: Integrating Disaster and Climate Resilience into Development.</p> <ul style="list-style-type: none"> This paper highlights the importance of climate and disaster resilient development and contends that it is essential to eliminate extreme poverty and achieve shared prosperity by 2030. It argues for the need to integrate climate and disaster resilience at the local level as a key strategy for sustainability. |
| PA#1 | <p>World Bank. 2021. Strengthening the implementation of the gender equality agenda for disaster risk management (DRM) in Central America Analysis Report</p> <ul style="list-style-type: none"> This report is a gap analysis to help strengthen the implementation of the gender equality agenda and understand the institutional capacity in Central America at the regional, national, municipal and community levels in the implementation of gender equality and the empowerment of women within the GIRD and the Climate Change Adaptation Agenda (ACC), based on the Central American Policy for Comprehensive Disaster Risk Management (PCGIR), the Regional Policy for Gender Equality and Equity (PRIEG) in its pillar 3 and the Sendai Framework for Disaster Risk Reduction 2015-2030 (Sendai Framework). |
| PA#1 | <p>UNWOMEN. 2020. Country Profile According to Gender Equality (PPIG) Panamá.</p> <ul style="list-style-type: none"> This Country Profile was prepared from a research process using quantitative and qualitative techniques, which collected and updated data on the reality of social, political, economic and environmental relations between men and women in the country. From a multidimensional perspective, the challenges that public policies must face to guarantee the rights of women, girls, boys and adolescents to equality and empowerment were identified. |
| PA#1 | <p>BID. 2015. Índice de Gobernabilidad y Políticas Públicas en Gestión de Riesgo de Desastres (iGOPP)</p> <ul style="list-style-type: none"> The iGOPP is a composite index made up of six subindices pertaining to each DRM reform component: General Framework of Governance for DRM (GF), Risk Identification and Knowledge (RI), Risk Reduction (RR), Disaster Preparedness (DP), Post-Disaster Recovery Planning (RC), and Financial Protection (FP). |
| PA#1 | <p>UNDRR. 2021. Regional Assessment Report on Disaster Risk in Latin America and the Caribbean (RAR 2021)</p> <ul style="list-style-type: none"> This document presents the results of thirty years of efforts to reduce the risk of disasters in the region. The analysis contained in these pages—particularly when considered in combination with the lessons learned from the COVID-19 pandemic and the adverse economic panorama ahead—presents us with a unique opportunity to both rethink and implement concrete risk reduction strategies that better meet the challenges of today. |
| PA#2 | <p>World Bank. 2017. <i>From panic and neglect to investing in health security: financing pandemic preparedness at a national level.</i></p> <ul style="list-style-type: none"> The publication makes the case for the much higher cost-effectiveness of investing in preparedness rather than ex-post response and provides recommendations to governments on how to strengthen preparedness and formulate national plans. Beyond the human cost associated with pandemics, the document highlights their |



| Prior Actions | Analytical Underpinnings |
|---|---|
| | economic cost which, even by conservative estimates, reaches 1 percent of global GDP, on the par with disaster or climate change estimates. |
| PA#2 | <p>WHO. 2016. <i>A strategic framework for emergency preparedness</i>. Geneva. License: CC BY-NC-SA 3.0 IGO.</p> <ul style="list-style-type: none"> The Framework emphasizes that a common, efficient, coordinated multisectoral approach, comprising all-hazard and hazard-specific measures, is needed to ensure preparedness for all types of emergencies at the community, national and international levels. Particularly, at the national level, emergency preparedness should set out to achieve the following strategic objectives: (a) operational readiness to respond to emergencies; (b) resilient health system; (c) One Health at the human-animal-environment interface; and (d) a whole-of-government, whole-of-society approach |
| PA#2 | <p>SICA. 2020. Regional Contingency Plan (<i>Plan de Contingencia Regional</i>).</p> <p>This document presents the national efforts to contribute, mitigate the socioeconomic impacts of the pandemic and begin to define the actions that will allow the economic and social recovery of the countries of the region. This Plan includes actions and measures in the areas of health and risk management; trade and finance; and security, justice and migration.</p> |
| Policy Area 2: Strengthening climate risk hazards identification and disaster risk assessment capabilities | |
| Prior action #3 | <p>Rogers, Tsirkunov, Kootval, Soares, Kull, Bogdanova, Suwa. 2019. <i>Weathering the Change: How to Improve Hydromet Services in Developing Countries</i>. Washington, DC: World Bank.</p> <ul style="list-style-type: none"> The report provides insights on key stakeholders who may be involved in the modernization, production, and delivery of hydromet services, with an emphasis on the role of the public sector, and identifies critical institutional and technical capacity-building needs, and proposes ways to gauge the cost-effectiveness of publicly funded NMHSs to carry out their mandate to contribute to the governments' efforts to protect lives, assets, and livelihoods, while also supporting the design and sustainability of investments in disaster-sensitive sectors, in a changing climate. <p>World Bank and United Nations. 2010. <i>Natural hazards, unnatural disasters: the economics of effective prevention</i>. http://documents1.worldbank.org/curated/en/620631468181478543/pdf/578600PUB0epi2101public10BOX353782B.pdf</p> <ul style="list-style-type: none"> The report highlights the potential effects of growing cities on the levels of exposure to hazards, while presenting evidence that supports the notion that increased exposure not necessarily translates in increased vulnerability if cities are better managed. The report also warns about the exacerbating effects of climate change reflected in increased intensities and frequencies of hazards in the coming decades, along with the existing constraints related to insufficient technical and scientific data and knowledge. |
| Policy Area 3: Development of territorial responsibilities for disaster risk management | |
| Prior action #4 | <p>World Bank. 2013. <i>Building Resilience: Integrating Disaster and Climate Resilience into Development</i>.</p> <ul style="list-style-type: none"> This paper highlights the importance of climate and disaster resilient development and contends that it is essential to eliminate extreme poverty and achieve shared prosperity by 2030. It argues for the need to integrate climate and disaster resilience at the local level as a key strategy for sustainability. <p>World Bank. 2017. <i>Central America Urbanization Review: Making Cities Work for Central America</i>. Directions in Development--Countries and Regions. Washington, DC.</p> <ul style="list-style-type: none"> This report provides a better understanding of the trends and implications of urbanization in the six Central American countries, including Panama, and the actions that central and local governments can take to reap the intended benefits of the urban transformation. The report makes recommendations on how urban policies can contribute to addressing the main development challenges the region currently faces such as lack of social inclusion, high vulnerability to natural hazards, and lack of economic opportunities and competitiveness. https://openknowledge.worldbank.org/bitstream/handle/10986/26271/9781464809859.pdf?sequence=2&isAllo wed=y |
| PA#1, #4 | |



4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

75. **This second DPL with a Cat DDO operation is fully consistent with the twin goals and with the WBG's Country Partnership Framework for Panama (FY2015–FY2021), discussed by the World Bank's Board of Executive Directors on April 7, 2015, and with the Performance and Learning Review (PLR) for the CPF FY2015–21, considered on June 29, 2018.**⁴⁷ The main objective of the CPF is to support the government's efforts to maintain high and inclusive growth, in line with the government's program and with the priority areas identified in the Systematic Country Diagnostic (SCD).⁴⁸ The operation supports, in particular, the CPF's *Pillar 3: Bolstering Resilience and Sustainability*, by strengthening the government's capacity to adapt fiscal and policy management quickly and flexibly to respond to disasters, within the framework of a comprehensive strategy for risk management. Acknowledging the government's measurable progress on fiscal management with the adoption of the Fiscal Social Responsibility Law,⁴⁹ the CPF highlights the importance of mainstreaming risk management into public policy and the active protection of critical infrastructure and services.

76. **The proposed operation is also aligned with the Bank's Green, Resilient, and Inclusive Development (GRID) approach and the WBG's Climate Change Action Plan 2021–2025.** The policy reforms supported under this operation aim to build Panama's resilience to shocks – including climate and health-related – while simultaneously promoting sustainability and inclusiveness. Prior actions under this DPL with Cat DDO will increase the government's capacity to mainstream DRM into multisectoral programs; integrate climate change considerations in disaster risk prevention strategies at the central and local levels; inform the transition in energy, agriculture, and water systems; and bridge historic gender gaps by increasing women's participation in the DRM system; among others.

77. **This operation also complements other ongoing operations in the country, notably the Panama DPL series.**⁵⁰ The Panama DPL series supports Panama's efforts to: (a) address key institutional weaknesses; (b) reduce long-term inequities; and (c) support two key global public goods. There are several synergies between the DPL series and proposed DPL with a CAT DDO, and prior actions under the proposed DPL with a Cat DDO will support the pillars of the DPL series. For instance, the agroclimatic tables provided by the newly created National Hydrometeorological Service (PA3) will inform Pillar C of the DPL series, which aims to improve agricultural productivity and the resilience of family farming. Additionally, the launching of the national program *Build Your Resilience* under the DPL series, which aims to inform, monitor and finance climate adaptation initiatives, will benefit from the existence of a multisectoral body (the DRM Cabinet under PA1) to guide and coordinate the program's implementation.

78. **The CPF foresees that Panama's rapid urbanization and deepening economic development, coupled with the longer-term impacts of climate change, would require the development of detailed risk profiles and**

⁴⁷ CPF Report No. 93425-PA and PLR Report No. 123665-PA.

⁴⁸ Koehler-Geib, Friederike (Fritzi), Kinnon Scott, Ayat Soliman, J. Humberto Lopez. 2015. Panama: Locking in Success. Systematic Country Diagnostic. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO (Report No. 97719). This report identified five priority areas: (a) infrastructure with a focus on energy; (b) education and skills; (c) public sector institutions; (d) Indigenous Peoples; and (e) water resources management. The report emphasizes that, in addition to the relevance of each of these areas for growth, inclusion and sustainability, it is important to also highlight the complementarities that exist across them.

⁴⁹ *Ley de Responsabilidad Social y Fiscal* of 5 June 2008, published in the Official Gazette (*Gaceta Oficial Digital*) No. 26056 on 6 June 2008.

⁵⁰ Panama Pandemic Response and Growth Recovery Development Policy Operation (P174107). The first operation is fully disbursed and closed, and the second operation is under preparation and tentatively planned for World Bank Board approval in June 2022.



clear roadmaps to address both immediate and longer-term concerns while building resilience against future hazards. To this end, the operation will provide technical advice to the institutions responsible for DRR and climate change interventions, in the following areas: (a) enhancing the country's risk financing and insurance strategy; (b) integrating disaster risk reduction criteria into the development of land use plans; and (c) improving the availability of disaster risk information for effective disaster risk management. The Government Strategic Plan (PEG) for the period 2019-2024 incorporates actions that are aligned with these strategic and technical objectives. The operation will define its interventions based on the following selectivity principals: (a) fighting poverty and promote shared prosperity; (b) sustainability; (c) inclusion; and (d) transparency.

79. **Lastly, as mentioned earlier, this operation is consistent with IBRD's policy objectives for countries above the GDI.** These objectives include: (a) the cross-cutting objective of strengthening institutional capacity and governance; (b) addressing the causes of regional and ethnic inequalities and poor social outcomes; and (c) supporting implementation of the global public good agenda on climate change.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

80. **The design of this operation has undergone an extensive consultation process with various government agencies and between government representatives and civil society stakeholders.** Consultations with key stakeholders for this operation were carried out virtually given the restrictions imposed by the COVID-19 pandemic. In addition to the multiple scoping missions conducted virtually, a physical mission took place in November 2021, which allowed the World Bank to confirm that the Prior Actions have been subject to wide consultations and participatory processes. One example is the Ministerial Resolution N. 900 of December 20, 2021, which was subject to an extensive process of institutional consultation which included five Ministries; government agencies such as the Fire Department, SINAPROC, the Geoscience Institute and the National Geography Institute; the University of Panama, the Specialized University of the Americas and other public universities; the Red Cross; municipalities and provincial/local technical staff; and technical staff from PAHO.

81. **During the implementation of this operation, the Bank will continue its ongoing coordination with several key partners working on disaster risk management initiatives in Panama and Central America.** These partners include SICA; CEPREDENAC; the Council of Ministers of Finance of Central America, Panama and the Dominican Republic (*Consejo de Ministros de Hacienda o Finanzas de Centroamérica, Panamá y República Dominicana*, COSEFIN); the Regional Committee of Hydraulic Resources (*Comité Regional de Recursos Hidráulicos*, CRRH); and UNDRR. Ongoing initiatives supported by other development partners operating in Panama have been considered during the preparation of this operation, including the ongoing CEPREDENAC/National Aeronautics and Space Administration (NASA) collaboration and the NASA-supported Regional Visualization and Monitoring System (SERVIR), as well as relevant operations financed by the Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI).

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

82. **This proposed second DPL with a Cat DDO is expected to have a positive indirect effect on poverty reduction, as well as positive social and environmental impacts.** Policies supported by this operation will



support the government's efforts to increase its fiscal space and strengthen its DRM framework, enabling it to respond to natural catastrophes and health-related emergencies while protecting ongoing programs aimed at improving the lives of vulnerable groups. Global experience has shown that catastrophic events have a disproportionate impact on the poor and vulnerable, who have a limited capacity to cope with the loss of housing, access to basic services and livelihoods. The policies supported under this operation are not expected to reduce poverty directly, but rather contribute to ensuring the sustainability of ongoing social protection programs for the poor in the event of a shock. Improvements in the national DRM framework, including vulnerability reduction strategies, are expected to benefit the poor by preventing increased poverty in the event of an adverse natural event that leads to damaged productive assets, job losses and disruption of public services.

83. Policies supported under this operation are expected to reduce the vulnerability of Indigenous and other vulnerable populations to natural hazards and health emergencies. Policy Area 1, on strengthening the DRM framework and responses to compound emergencies, will provide services such as simulation exercises, in coordination with Indigenous Peoples' authorities and other relevant authorities, to better prepare at-risk populations to cope with specific natural and health-related hazards. Additionally, the institutional strengthening reforms under Policy Area 1 should help to shorten the interval between a disaster and response/recovery efforts, thereby reducing the prevalence of negative coping strategies by impoverished families, including those that worsen deforestation. The reforms will also result in better access to information on the flow of disaster financing, helping to increase its social accountability. Policy Area 2 will provide reliable hydromet and climate information and services to vulnerable populations, to foster their adoption of disaster preparedness measures and contingency planning. This Policy Area will also likely have indirect social benefits by increasing equitable access to and use of water resources, and by supporting community representation in water governance structures. Policy Area 3 will likely generate indirect positive poverty and social impacts by improving the quality of provincial and municipal planning and ensuring that the specific disaster-related needs of poor and vulnerable communities are considered. The Prior Action under this Policy Area should help to promote better public understanding and dialogue between national government agencies and territorial management units—and within the management units at the provincial and municipal levels—about their responsibilities if a disaster strikes, and the types of measures that can be implemented to mitigate its impacts.

84. Under the first DPL with a Cat DDO, the funds released upon a declaration of a State of Emergency, first for the severe drought triggered by the ENSO event of 2015-2016, and later for the COVID-19 pandemic, helped to ensure that resources were quickly available to respond to the needs of the affected populations. In both cases, the quick access to liquidity provided by the operation demonstrated its key role in the government's portfolio of disaster risk financing instruments. This proposed second operation is expected to substantially strengthen the government's DRFS framework's disaster risk retention layer.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

85. The prior actions supported under this operation are expected to have positive effects on the environment and natural resources, by providing the government with critical funding to implement measures that reduce environmental degradation in support of its DRM program. For example, the creation of the DRM Cabinet under PA1 will provide the right institutional setup to mainstream DRM and CCA within government programs and policies, including those related to environmental protection and sustainable development. The update of protocols to prepare and respond more effectively to different hazards under PA2 will minimize the impacts of such hazards on the population and the environment. Further, the creation of the NMHS under PA3



will provide critical climatic information to strengthen the country's early warning systems and inform the more efficient use of natural resources. Finally, the creation of the DDT under PA4 will have direct and positive environmental impacts at the local level by supporting local governments to develop risk-informed territorial planning instruments.

86. Specifically, this operation directly supports efforts aimed at addressing Priority Areas 92 and 93 of PEG's Comprehensive Disaster Risk Management Strategy. Priority Action 92 seeks to "Implement agreed upon strategic environment protection and climate change frameworks," and Priority Action 93 seeks to "Prevent and reduce disaster risks." The implementation of the Prior Actions and their results will directly contribute to the following commitments established in the PEG:

- I. Prevention and Management of (Natural) Disaster Risks, by:
 - (i) Strengthening the prevention and response capacities of the institutions in charge of disaster management, in order to avoid or reduce the loss of life;
 - (ii) Promoting a plan for the prevention of natural disasters, in conjunction with local governments and educational authorities;
 - (iii) Reviewing the Comprehensive Disaster Risk Management National Policy to ensure that it aligns with international policies and national realities;
 - (iv) Promoting and supporting volunteer work to prevent and respond to natural disasters;
 - (v) Ensuring that institutions in charge of civil protection have the necessary support to fulfill their responsibilities for prevention and emergency response.

The multisectoral DRM Cabinet will bring together the political, technical and operational capacities to implement these commitments, while creating synergies with the other priorities and strategic areas, such as climate change adaptation, decentralization, gender, inclusion and risk information management (PA1 and PA4).

- II. Hydromet Security, by:
 - (i) Developing plans and risk analysis for investments in comprehensive basin management investments and improvement of vulnerable areas, in support of the Cabinet working plan (PA1) and implementation of the NMHS (PA3) and DDT (PA4);
 - (ii) Studying alternatives for new water sources or for improvement of current ones, to be developed using best practices for social and environmental management, and with the full participation of society (PA3).
- III. Environment and Climate Change, by:
 - (i) Promoting actions to combat climate change, including actions to develop clean energy and protect forests;
 - (ii) Consolidating an international policy on the conservation of the environment and biodiversity, as well as the global fight against climate change at a global level.

The Ministry of Environment and the Directorate of Climate Change Adaptation, as part of the DRM Cabinet (PA1), will take the lead in creating an articulated and harmonized strategy to improve the resilience of the territories; the strategy will be implemented by the Territorial Development Directorate (PA4) and the Meteorological and Hydrological Service (NMHS) (PA3).



87. **Panama has already developed a legal framework for addressing environmental and social issues.** The General Law of the Environment (Law No. 41), approved by the National Assembly on 1 July 1998, is (with subsequent revisions) the cornerstone of the country's environmental management framework. Law 41 was enacted after thorough consultation with the private sector, nongovernmental organizations and other key stakeholders. The Law serves as an overall framework for regulating and managing environmental issues, provides policy guidelines for both public and private institutions, and sets out the roles of the relevant government entities and coordinating bodies. It also articulates a set of ambitious principles for environmental policy, including the obligation of the State to provide a healthy environment. It takes account of best practices in environmental management, including mainstreaming environmental policies, public participation in environmental management, gathering and disseminating information, environmental education and economic instruments.

88. **The legal framework for environmental management also includes provisions for sustainable territorial management, although capacity gaps hinder implementation at the local level.** Law No. 61 of October 3, 2009⁵¹ gave the Ministry of Housing and Land Management (*Ministerio de Vivienda y Ordenamiento Territorial*, MIVIOT) responsibility for developing national and regional land use plans and for coordinating land use policy with the Ministry of Environment. The regulations for the 2013 Watershed Law⁵² authorized the creation of structures such as Basin Committees (Panama has 12 hydro-energy basins) that have roles and responsibilities for DRM and CCA. Additionally, the draft Law to regulate the Integrated Management of Water Resources⁵³ will introduce relevant concepts and criteria for risk management and adaptation to climate change. However, local capacity to implement these measures is very weak, and the harmonization of DRR and CCA measures, as required by the Environmental Impact Assessment (EIA) process, has not made much progress due to the lack of capacity for implementation and oversight. PA4 addresses these capacity constraints.

89. **In terms of adaptation to climate change, Law 8 on Climate Change, Mitigation and Adaptation⁵⁴ modifies the General Environmental Law.** The expanded title of the new Law indicates the government's determination to address climate change and its effects at the national level. Developed through a broad and inclusive participation process, Law 8 has among its objectives the harmonization of measures aimed disaster risk reduction and adaptation to climate change.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

90. **The main strengths of Panama's Public Financial Management (PFM) system are:** (a) timely review and approval of the national Budget by the National Assembly; (b) accurate and timely public debt management and reporting; (c) publicly accessible information on government expenditure; and (d) effective payroll controls.

91. **Panama's annual Budget is published promptly in the Official Gazette after legislative approval.** The annual published Budget, together with in-year budget execution reports, are publicly available online.

92. **Procurement processes in Panama are largely competitive and transparent and have been improving over time.** The country approved a new Procurement Law, launched a new version of the procurement system,

⁵¹ Ley 61 del 3 de octubre de 2009 "que reorganiza el Ministerio de Vivienda y crea al Viceministerio de Ordenamiento Territorial."

⁵² Decreto Ejecutivo 479 de 23 de abril de 2013 "que reglamenta la Ley 44 del 5 de agosto de 2002 o Ley de Cuencas".

⁵³ Anteproyecto 094 "que regula la gestión integrada de los recursos hídricos, Asamblea Legislativa".

⁵⁴ Ley 8 de 25 de marzo de 2015 que incluye en la Ley General del Ambiente los temas de Cambio Climático, mitigación y adaptación.



and conducted an analysis of procurement outcomes. The new Procurement Law enhances policies and procedures to overcome common obstacles in public procurement, increase competition and curb corruption. Additionally, the new Law seeks to promote sustainable procurement. The new version of the procurement system, *PanamáCompra 3*, considers lessons learned from the previous version and incorporates the changes from the new Procurement Law. It is expected that the new *PanamáCompra 3* system will be rolled out to all Central Government agencies by January 2022. The World Bank has facilitated these advances through the approved Panama Pandemic Response and Growth Recovery Development Policy Loan 1 (P174107) and DPL 2 (P175930), under preparation. Despite this progress, there is still room to improve practices to address inefficiencies in the framework. The government also aims to improve integrity in procurement and incorporate sustainable procurement into the processes.

93. **The ongoing PFM dialogue has identified several areas that would benefit from improvement:** (a) the credibility of the Budget is affected by significant and numerous budget modifications throughout the year; (b) the predictability of funds available for expenditures is uneven; (c) a mechanism for the proper control of payment arrears should be put in place; (d) more accurate and comprehensive budgetary and financial reporting is needed, as well as a new asset management framework; (e) the Central Government is still struggling to produce a set of consolidated financial statements; and (f) there is a need for strengthened internal and external audit functions as well as for implementation of the International Standards of Supreme Audit Institutions (ISSAI).

94. **The government is committed to supporting PFM reforms.** Over the past few years, Panama has embarked on a series of reforms to address its PFM weaknesses. Notably, the government is in the final stages of introducing a new Integrated Financial Management System (*Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa, ISTMO*), which aims to provide a modern platform that integrates public sector accounting, budgetary and treasury functionalities.⁵⁵

95. **The Public Expenditure and Financial Accountability (PEFA) report of 2013** confirmed that budget resources management by Panama's Central government PFM system and its commitment to ongoing PFM reform are reliable to support this operation. Through ongoing PFM dialogue, a new PEFA will be carried out, potentially in FY23, and reflect the government's progress in implementation of the new ISTMO.

96. **The most recent IMF Safeguards Assessment⁵⁶ was reviewed to assess the foreign exchange control environment in place at the National Bank of Panama (*Banco Nacional de Panama, BNP*).** Based on this review, it was concluded that controls over Foreign Exchange (FOREX) do not pose major risks to achievement of the PDO.

97. **The proposed Loan will follow the World Bank's standard disbursement procedures for a Development Policy Loan with a Cat DDO.** The drawdown period for this operation will be three years. The operation may be renewed four times for up to three years each time, for a total deferral period of 15 years. Upon approval of the operation, effectiveness of the Loan Agreement, and the submission of a signed withdrawal application, the proceeds of the Loan may be drawn down at any time after a disaster resulting in a declaration of a State of Emergency by the Executive Branch, under terms and conditions specified in the Loan Agreement. Loan proceeds

⁵⁵ The World Bank continues to assist the Government of Panama in producing consolidated financial statements for the Central Government and improved procurement processes through a series of Development Policy Operations under implementation: Panama Pandemic Response and Growth Recovery I (P174107- Loan IBRD-9178) and DPL II (P175930) under preparation.

⁵⁶ IMF Safeguards Assessment Final Report, September 29, 2020.



will be disbursed into MEF's Treasury Single Account (TSA), which will form part of the country's Foreign Exchange Reserves. This account is denominated in US dollars, which is legal tender in the country, and is held at the *BNP*, a state-owned bank and the government's financial agent (as Panama has no Central Bank). The Government of Panama shall, within thirty (30) days after the withdrawal of the Loan proceeds, report to the World Bank: (a) the exact sum received into said account; and (b) the details of the account to which the local currency equivalent of the loan proceeds was credited. The Government of Panama shall also confirm that an equivalent amount has been accounted for in Panama's Budget management systems. The financial support provided under this operation is not intended to finance goods or services on the list of Excluded Expenditures as per the World Bank General Conditions. If any portion of the Loan is used to finance excluded expenditures as so defined in the General Conditions, the World Bank shall require Panama to refund the amount and such payments made for excluded expenditures will be canceled.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

98. **The MEF will be the main counterpart agency and will share responsibility for implementation of the program with the Ministry of the Interior, MINSA, the Ministry of Environment and SINAPROC.** The MEF will be responsible for coordinating actions across these and other ministries and agencies involved in the operation.

99. **Throughout the drawdown period, the Bank will periodically monitor the satisfactory implementation of the DRM program.** Such periodic monitoring may take place at a frequency consistent with the information and reporting requirements of the World Bank, but no less than every 12 months, and could be initiated by either the World Bank or the Government of Panama. If at any time during the drawdown period, the World Bank concludes that the DRM program is not being implemented in a manner satisfactory to the World Bank, the World Bank will promptly advise Panama of the need for improvement and the suspension of eligibility for disbursement. A subsequent review would be necessary to confirm that the DRM program is once again being implemented satisfactorily before any further drawdown requests can be submitted. Once the World Bank is satisfied that drawdown conditions are again in place, the World Bank will inform Panama that its eligibility to submit disbursement requests has been restored.

100. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



6. SUMMARY OF RISKS AND MITIGATION

101. **The overall risk of the operation is Moderate.** The most relevant risk to the achievement of the program's development objective is the macroeconomic risk due to the impacts of the ongoing COVID-19 pandemic. However, this risk is rated Moderate given the improvement of the country's fiscal and debt situation. The macroeconomic risks are mitigated by ample international reserves, a credible fiscal adjustment path guided by the fiscal rules, the IMF PLL and this proposed operation.

Table 6: Summary Risk Ratings

| Risk Categories | Rating |
|---|------------|
| 1. Political and Governance | ● Moderate |
| 2. Macroeconomic | ● Moderate |
| 3. Sector Strategies and Policies | ● Moderate |
| 4. Technical Design of Project or Program | ● Moderate |
| 5. Institutional Capacity for Implementation and Sustainability | ● Moderate |
| 6. Fiduciary | ● Moderate |
| 7. Environment and Social | ● Moderate |
| 8. Stakeholders | ● Moderate |
| 9. Other | |
| Overall | ● Moderate |



ANNEX 1: POLICY AND RESULTS MATRIX

| Prior Actions | Indicator Name | Baseline (2021) | Target (2025) | Responsible Entity |
|---|--|-----------------|---------------|------------------------|
| Policy Area 1. Strengthening the institutional framework for management and response to the impact of climate and disaster risk in a post-COVID context | | | | |
| <p>Prior Action 1. The Borrower has taken measures to strengthen the institutional framework for disaster risk management by creating: (a) the Civil Protection career; and (b) a Comprehensive Risk Management Cabinet with the mandate to promote guidelines, national policies, strategic plans and programs aiming at reducing disaster risks in a comprehensive manner and to foster economic, sanitary, cultural and education resilience, as evidenced, respectively, by (a) Law No. 233, dated August 24, 2021, and published in the Official Gazette on August 25, 2021; and (b) Executive Decree No. 251 of August 24, 2021, and published in the Official Gazette on August 30, 2021.”</p> | <p>Results indicator 1A: Percentage of SINAPROC’s staff certified as risk managers nationwide as per the new Civil Protection Career provisions (type percentage)</p> | 0% | 35% | Ministry of Government |
| | <p>Results indicator 1B: Percentage of female members within the Civil Protection General Directorate (type percentage)</p> | 39% | 50% | SINAPROC |
| | <p>Results indicator 1C: Number of multisectoral programs endorsed by the DRM Cabinet (type number)</p> | 0 | 4 | Ministry of Government |
| <p>Prior Action 2. The Borrower has taken measures to strengthen and consolidate its capacity to comprehensively manage and prevent emergencies and disasters, including disease outbreaks, epidemics, pandemics, and those exacerbated by climate change by: (a) adopting tools and protocols for response to multi-hazard emergencies and disasters in health; and (b) establishing the authority, leadership and oversight for comprehensive disaster risk management within the Ministry of Health to the Comprehensive Disaster Risk Management Office of the Health Sector, as evidenced by Ministerial Resolution No. 900, dated December 20, 2021, and published in the Ministry of Health’s website.</p> | <p>Results indicator 2: National-level simulation exercises to test multi-hazard response protocols carried out with satisfaction levels at or above 80 percent according to PAHO best practices. (type number)</p> | 0 | 2 | MINSA SINAPROC |



| Policy Area 2. Strengthening climate risk hazards identification and disaster risk assessment capabilities | | | | |
|--|---|-------------|--------------|---|
| Prior Action 3. The Borrower has created the National Hydrometeorological Service Institute as an autonomous government agency, as evidenced by Law No. 209, dated April 22, 2021, and published in the Official Gazette on the same date. | Results indicator 3A: Approval of the NMHS's organizational structure, budget, and staffing plan by the Institute's board of directors (type binary) Results indicator 3B: Number of economic activities and sectors informed through seasonal forecasts emitted by the NMHS (type number) | No 1 | Yes 4 | National Meteorological & Hydrological Service (NMHS) |
| Policy Area 3. Development of territorial responsibilities for disaster risk management | | | | |
| Prior Action 4. The Borrower has created a Territorial Development Directorate and mandated, among its responsibilities, the planning and coordination of activities related to disaster risk reduction at the subnational level; as evidenced by Executive Decree No. 89, dated February 26, 2021 and published in the Official Gazette on the same date. | Results indicator 4A: Percentage of territorial plans with DRM and CCA criteria validated by the Directorate of Territorial Development (type percentage) | 0% | 40% | Ministry of Economy and Finance |



ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Completes the First Review Under the Precautionary and Liquidity Line Arrangement for Panama

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first review under the two-year Precautionary and Liquidity Line (PLL) arrangement for Panama which was approved on January 19, 2021 in the amount equivalent to US\$2.7 billion (SDR 1.884 billion).
- The PLL serves as insurance against extreme external shocks stemming from the COVID19 pandemic, with access in the first program year equivalent to about US\$1.35 billion (0.942 billion SDR). The authorities intend to continue treating the arrangement as precautionary.

Washington, DC – July 28, 2021: The Executive Board of the International Monetary Fund (IMF) completed today the first review under the Precautionary and Liquidity Line (PLL) Arrangement for Panama for SDR 1.884 billion (500 percent of Panama’s quota, equivalent to about US\$2.7 billion) (See press release No. 21/19). The Panamanian authorities have not drawn on the arrangement and intend to continue treating as precautionary. The PLL serves as insurance against extreme external shocks stemming from the COVID-19 pandemic.

Panama’s economy suffered a severe shock amid the global pandemic in 2020 as containment measures significantly reduced economic activity, especially tourism, while hurricane Eta and tropical storm Iota curtailed a large part of the country's agricultural production. As a result, output contracted by 17.9 percent, with the fiscal position deteriorating significantly amid revenue shortfalls and expenditure pressures.

While Panama is able to cover its external financing needs under present conditions, the PLL arrangement provides insurance against externally driven downside risks. Policy priorities under the PLL include supporting an adequate level of spending on health and social needs while boosting the post-pandemic recovery and further strengthening institutional policy frameworks, including financial integrity and data adequacy.

Panama has adopted the policies envisaged under the PLL arrangement and have adhered to the amended fiscal rule. The authorities continue to strengthen Panama’s institutional frameworks, including its AML/CFT regime in accordance with the FATF action plan, its statistics reporting, multiannual budgeting and financial regulation and supervision.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Chair, made the following statement:”



“Panama’s economy contracted sharply in 2020 amidst stringent containment measures and mobility restrictions to tackle the COVID-19 pandemic, reversing over two decades of unprecedented economic expansion. The outlook for 2021 is optimistic as the country is well positioned for a considerable recovery, underpinned by a rebound in the global economy, steadfast COVID-19 vaccination program, and supportive macroeconomic policies. However, important challenges continue to persist, including a possible resurgence of the COVID-19 pandemic which would disrupt global trade and capital flows, thus adversely affecting the activity of Panama’s canal and logistics sectors. In addition, the country faces important downside risks emanating from a possible lack of progress on exiting rapidly the FATF grey list.

“The two-year arrangement under the Precautionary and Liquidity Line (PLL), approved by the Executive Board on January 19, 2021 for 500 percent of quota (SDR 1.884 billion), is helping address outstanding vulnerabilities, reinforce the authorities’ economic recovery efforts, and boost market confidence. The performance under the program has been strong and Panama continues to meet the PLL qualification criteria. The authorities remain resolute in implementing the strong policies under the PLL and intend to treat the arrangement as precautionary.

“The authorities are committed to recalibrating policy responses to safeguard macroeconomic and financial stability and addressing FATF’s concerns to successfully exit the grey list. These include adhering to the fiscal rule to ensure debt sustainability in the medium-term, enhancing fiscal transparency, maintaining tight supervisory oversight to safeguard financial stability, and improving the financial integrity framework by expediently addressing the remaining deficiencies in the AML/CFT regulatory framework.

“The policy agenda during the PLL will focus on facilitating prompt exit from the FATF grey list, strengthening data adequacy, and preparing the economy for the post-pandemic recovery.

For information on COVID-related financing requests approved by the IMF Executive Board, please see a link to the IMF Financial Assistance Tracker: <https://www.imf.org/en/Topics/imfand-covid19/COVID-Lending-Tracker>

For the list of upcoming discussions, please see a link to the calendar of the IMF Executive Board meetings: <https://www.imf.org/external/NP/SEC/bc/eng/index.aspx>



ANNEX 3: LETTER OF DEVELOPMENT POLICY



MINISTERIO DE
ECONOMÍA Y FINANZAS
Despacho del Ministro

2 de febrero de 2022
MEF-2022-5257

Señor
Michel Kerf
Director para Centroamérica
y República Dominicana
Banco Mundial

Re: Carta de política de desarrollo para "el Segundo DPL con una opción de giro diferido para catástrofes" (DPL con un CAT DDO).

Estimado señor Kerf:

En el marco del Plan Estratégico de Gobierno (PEG) para el periodo 2020-2024, el Gobierno del Presidente Laurentino Cortizo se ha comprometido en mejorar la calidad y el bienestar del capital humano de la población de Panamá, y al mismo tiempo, lograr que sea incluyente para todas las personas, en especial aquellas con mayor vulnerabilidad. En este sentido, el Gobierno ha implementado entre otros, una estrategia con el Plan COLMENA con carácter multisectorial e interinstitucional, y en el cual, se busca consolidar la gobernanza local como mecanismo para combatir la pobreza y las desigualdades socio/económicas a nivel nacional.

La privilegiada posición geográfica y las características ambientales de la República de Panamá, que posibilitan, entre otras cosas, la existencia y operación del Canal de Panamá y el desarrollo de una pujante industria turística, también presentan potenciales amenazas que ponen en riesgo a su población; así como, los logros sociales y económicos del país. Estudios realizados han confirmado que Panamá se caracteriza por periodos de precipitación intensa y prolongada, tormentas, fuertes descargas eléctricas, inundaciones, incendios forestales, trombas marinas, y episodios ENSO (El Niño / La Niña); sin embargo, algunos de estos eventos adversos no suelen presentarse con una marcada regularidad. Al respecto, aunque las estadísticas de desastres muestran que el impacto de los desastres en Panamá son relativamente menores que en el resto de Centroamérica, el país no está exento de ellos, y por otro lado, el desarrollo acelerado de Panamá en conjunto con las intervenciones territoriales propician una tendencia a aumentar, tanto la exposición física como la vulnerabilidad de las comunidades, al impacto relacionado con su entorno propenso a múltiples amenazas, aunado a los efectos adversos del cambio climático.

① La autenticidad de este documento puede ser validada mediante el código QR.





El Plan Estratégico de Gobierno incluye pilares estratégicos con tareas específicas para aumentar y fortalecer las capacidades de las instituciones encargadas de atender los desastres y los efectos negativos antes fenómenos naturales u otros, con mayor eficacia y rapidez, a fin de disminuir las pérdidas de vidas humanas. Este fortalecimiento institucional permite, al mismo tiempo, impulsar planes de prevención de desastres en conjunto con los Gobiernos Municipales y/o Juntas Locales y otras autoridades (educativas, salud, energía, entre otros), y a su vez, actualizar la política nacional para la reducción del riesgo de desastres e impulsar y apoyar el trabajo voluntario con la población para la prevención y atención de desastres.

Tomando en cuenta, el vínculo entre los procesos de desarrollo económico y social sostenible y la existencia de capacidades colectivas e individuales de preparación y respuesta a los impactos, incluidos las amenazas; el Gobierno se ha comprometido a continuar fortaleciendo sus políticas sociales, desarrollando sinergias con las políticas de gestión del riesgo de desastres, protección ambiental, prevención en materia de salud, perfeccionamiento de las políticas de descentralización de los Gobiernos locales, así como, los mecanismos y herramientas de adaptación al cambio climático.

La República de Panamá ha sido pionera en la incorporación de una serie de compromisos a nivel internacional y regional. Entre estos compromisos, cabe destacar, a nivel internacional, la firma y aprobación en el 2015 del Marco de Acción de Sendai, que regirá las políticas para la Prevención de Riesgo y Operaciones de Rescate en casos de desastres hasta el 2030 y los Objetivos de Desarrollo Sostenible (ODS) alineados en el Plan Estratégico Nacional con Visión de Estado "Panamá 2030".

Consecuente con estos compromisos adquiridos, el Gobierno de Panamá adoptó el Marco Estratégico de Gestión Financiera de Riesgos de Desastres (año 2014), a fin de identificar, gestionar y prevenir el riesgo fiscal de amenazas por desastres naturales o impactos asociados a crisis económicas; permitiendo en este sentido, identificar áreas temáticas para reducir el riesgo de dichos desastres o amenazas. Este marco estratégico se enfoca en cinco áreas: (i) Identificación, dimensionamiento y entendimiento del riesgo fiscal debido a la ocurrencia de desastres, (ii) Incorporación del análisis de riesgo de desastres en los procesos de planificación de la inversión pública, (iii) Formulación de los componentes para el desarrollo e implementación de herramientas de retención y transferencia del riesgo, (iv) Desarrollo del mercado doméstico de seguros, y (v) Fortalecimiento de la Dirección de Inversiones, Concesiones y Riesgos del Estado (DICRE), en relación a su rol para diseñar e implementar estrategias de protección financiera.

El Gobierno Nacional se ha comprometido con tres (3) áreas de política que incluyen las siguientes acciones prioritarias, en materia de riesgo de desastres y cambio climático:

- 1. Fortalecimiento del marco institucional para el manejo y la respuesta ante el impacto del riesgo climático y de desastres en contexto post-COVID. El**



Gobierno ha tomado medidas para fortalecer el marco institucional para la gestión del riesgo de desastres mediante la creación de: (a) la carrera de Protección Civil; y (b) un Gabinete de Gestión Integral de Riesgos, de alto nivel político y con carácter multisectorial y territorial. El Gabinete tiene el mandato de promover lineamientos, políticas nacionales, planes estratégicos y programas dirigidos a reducir el riesgo de desastres de manera integral. Al mismo tiempo, el Gobierno ha tomado medidas para fortalecer y consolidar su capacidad para gestionar y prevenir de manera integral las emergencias y los desastres, incluidos los brotes de enfermedades, las epidemias y pandemias y aquellas agravadas por el cambio climático. Para esto, ha adoptado herramientas y protocolos para responder a emergencias y desastres multiamenaza en salud y ha establecido la autoridad, el liderazgo y la supervisión de la gestión integral del riesgo de desastres en el Ministerio de Salud, por medio de la Oficina de Gestión Integral del Riesgo de Desastres del Sector Salud (OIRDS).

2. **Fortalecimiento de las capacidades de identificación de riesgos climáticos y la evaluación de riesgos de desastres.** La Asamblea Nacional aprobó una Ley que crea un Servicio Hidrometeorológico Nacional (NHMS), como organismo gubernamental autónomo, que ayudará a Panamá a generar pronósticos hidrometeorológicos, agrometeorológicos y otros servicios especializados, para informar a las actividades productivas que desarrollan los sectores, especialmente en áreas con alta vulnerabilidad a amenazas climáticas en el país. Además, contribuirá a reducir los pasivos contingentes del Gobierno ante desastres y a proteger la estabilidad macroeconómica y los programas sociales en curso para los grupos de personas más vulnerables.
3. **Desarrollo de responsabilidades territoriales para la Gestión del Riesgo de Desastres.** El Gobierno se compromete a la creación de una Dirección de Desarrollo Territorial (DDT) dependiente del Viceministerio de Economía y tiene el mandato, entre sus responsabilidades, de planificar y coordinar las actividades relacionadas con la reducción del riesgo de desastres dentro de las Unidades de Gestión Territorial del Prestatario.

Finalmente, es necesario destacar la importancia de fortalecer la capacidad institucional a nivel nacional para poder continuar con una gestión de riesgo proactiva, por lo que, reiteramos nuestra solicitud al Banco para que se realicen las misiones necesarias con el equipo de este Ministerio, a fin de concretizar e implementar la preparación de esta operación crediticia denominada "Préstamos para Políticas de Desarrollo – DPL (por sus siglas en inglés), con una Opción de Disposición Diferida por Catástrofes - CAT DDO (por sus siglas en inglés), por la suma de hasta cien millones de dólares de los Estados Unidos de América con 00/100, (US\$100,000,000.00).

Atentamente,


Héctor E. Alexander H.
Ministro

HEAH/EMdG/EPC/JAML/VDLR/jvr





UNOFFICIAL TRANSLATED VERSION OF LETTER OF DEVELOPMENT POLICY

February 2, 2022

MEF- 2022-5257

Mr. Michel Kerf
Country Director for Central America and
The Dominican Republic
The World Bank

*Ref: Second Panama Disaster Risk Management
Development Policy Loan (DPL) with Catastrophe Deferred
Drawdown Option (CAT DDO).*

Dear Mr. Kerf,

Under the 2020-2024 Strategic Government Plan for Panama (PEG), President Laurentino Cortizo Administration is strongly committed to improving the quality and wellbeing of Panama's human capital, and concurrently, inclusive for all, particularly, for the vulnerable populations. In this sense, the Government has implemented, *inter alia*, a multi-sectoral inter-agency strategy for COLMENA Plan, seeking to strengthen local governance as key national poverty and socioeconomic inequality reduction tool.

The Republic of Panama's privileged geographic position and environmental characteristics that makes possible, among other things, the existence and operation of the Panama Canal as well as blossoming tourism, also poses potential challenges that may affect both its population and social and economic gains achieved so far. Studies have confirmed that Panama is characterized by long heavy rainfall periods, including rainstorms, thunderstorms, floods, wildfires, waterspouts, and ENSO events (El Niño/La Niña); some of these adverse weather events, usually do not occur regularly. In this respect, although disaster statistics may reflect that impacts of disasters in Panama are relatively lesser than the rest of Central America, the country is not left unharmed. On the other hand, Panama's rapid growth and territorial interventions tend to exacerbate communities' physical exposure and vulnerability to the impact of their multi-hazard susceptible environs, including adverse climate change effects.

The Strategic Government Plan for Panama (PEG) contains strategic pillars with specific responsibilities to build and strengthen capacities of those agencies entrusted with coping with and responding to catastrophes and negative effects of natural disasters and others, more effectively and rapidly to reduce human losses. This institutional strengthening helps, concomitantly, foster and implement disaster prevention plans jointly with Municipal Governments and/or Local Boards and other authorities (education, health, energy, etc.), update the national DRR policy, advance and support volunteer-based disaster risk prevention and response programs with population.

Considering the association between the sustainable economic and social development processes and the existence of collective and individual capacities in terms of disaster preparedness and response, including hazards, the Government is committed to continuing furthering its social policy, building synergies with DRM, environmental protection, and prevention in public health policies, and perfecting local government decentralization policies, including mechanisms and tools for climate change adaptation.

The Republic of Panama has been a pioneer in incorporating a series of international and regional commitments, *inter alia*, the signing, and approval in 2015 of the Action Plan on the Sendai Framework for Disaster Risk Reduction and Rescue Operations 2030 and the Sustainable Development Goals (SDGs), aligning the National Strategic Plan with State Vision Panama 2030.



In line with these commitments above, the Government of Panama has adopted the Strategic Framework for the Financial Management of Disaster Risk (2014) to identify, manage and prevent fiscal risk in the event of disasters related to the impact of natural hazards or economic shocks, thus enabling the identification of Theme Areas to reduce the risks of said disasters or hazards. This Strategic Framework focuses on five Strategic Pillars: (i) identification, quantification, and understanding of fiscal risk due to disasters; (ii) incorporation of disaster risk analysis in the planning of public investment; (iii) formulation of components for developing and implementing risk retention and transfer instruments; (iv) development of the domestic insurance market; and (v) strengthening of the *Dirección de Inversiones, Concesiones y Riesgos del Estado* (DICRE, Spanish acronym for State Directorate of Investment, Concessions, and Risks), so it can fulfill its role in designing and implementing financial protection strategies.

The National Government is committed to three (3) Policy Areas, including the following Priority Actions associated with disaster risk and climate change:

1. **Policy Area 1. Strengthening the institutional framework for management and response to the impact of climate and disaster risk in a post-COVID context.** The Government has adopted measures to strengthen the institutional framework for disaster risk management by creating: (a) The Civil Protection Career; and (b) Comprehensive Disaster Risk Reduction Cabinet, a political high-level multi-sectoral territorial agency. The DRM Cabinet is tasked with furthering national guidelines, policies, strategic plans, and programs for integrated disaster risk reduction. Simultaneously, the Government has taken steps in enhancing its capacity to manage and prevent the disaster risk resulting from the occurrence of natural and health-related hazards, including disease outbreaks, epidemics and pandemics, and others, including the adverse effects of climate change. Given the foregoing, it has adopted tools and protocols to respond to multi-hazard health emergencies and disasters and has established authority, leadership, and supervision of integrated DRM within the Ministry of Health through the *Oficina de Gestión Integral del Riesgo de Desastres del Sector Salud* (OIRDS, the Spanish acronym for Office for Integrated Disaster Risk Management in Health Sector).
2. **Policy Area 2. Strengthening climate risk hazards identification and disaster risk assessment capabilities.** The National Assembly of Panama passed the creation of the National Hydrometeorological Service (NHMS) as an autonomous governmental agency that will help Panama generate hydrometeorological and agrometeorological forecasts and other specialized weather services informing production activities developed by sectors in areas highly vulnerable to natural hazards nationwide. Also, it will contribute to reducing contingent government liabilities in the event of disasters and protecting macroeconomic stability and ongoing social welfare programs targeting the most vulnerable segments.
3. **Policy Area 3. Development of territorial responsibilities for disaster risk management.** The Government is committed to creating the Territorial Development Directorate (DDT) under the Vice Ministry of Economy, tasked, among other things, with planning and coordinating DRM activities within the Borrower's Territorial Management Units.

Finally, it is necessary to stress the importance of strengthening national institutional capacity to keep on with proactive risk management. Then, we reiterate our request to the Bank to coordinate the missions as needed with the Work Team of this Ministry and implement and complete the preparations of this Disaster Risk Management Development Policy Loan (DPL) with Catastrophe Deferred Drawdown Option (CAT DDO) for an amount up to one hundred million dollars (US\$ 100,000,000).

Yours truly,

Hector E. Alexander H.
Minister

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

| Prior Actions | Significant positive or negative environment effects ⁵⁷ | Significant positive or negative poverty, social or distributional effects ⁵⁸ |
|---|--|--|
| Policy Area 1. Strengthening the institutional framework for management and response to the impact of climate and disaster risk in a post-COVID context | | |
| Prior Action 1. The Borrower has taken measures to strengthen the institutional framework for disaster risk management by creating: (a) the Civil Protection career; and (b) a Comprehensive Risk Management Cabinet with the mandate to promote guidelines, national policies, strategic plans and programs aiming at reducing disaster risks in a comprehensive manner and to foster economic, sanitary, cultural and education resilience, as evidenced, respectively, by Law No. 233, dated August 24, 2021, and published in the Official Gazette on August 25, 2021 and Executive Decree No. 251 dated August 24, 2021, and published in the Official Gazette on August 30, 2021. | Positive effect (Indirect) | Positive effect (indirect) |
| Prior Action 2. The Borrower has taken measures to strengthen and consolidate its capacity to comprehensively manage and prevent emergencies and disasters, including disease outbreaks, epidemics, pandemics, and those exacerbated by climate change by: (a) adopting tools and protocols for response to multi-hazard emergencies and disasters in health; and (b) establishing the authority, leadership and oversight for comprehensive disaster risk management within the Ministry of Health to the Comprehensive Disaster Risk Management Office of the Health Sector, as evidenced by Ministerial Resolution No. 900, dated December 20, 2021, and published in the Ministry of Health's website. | Positive effect (indirect) | Positive effect (indirect) |
| Policy Area 2. Strengthening climate risk hazards identification and disaster risk assessment capabilities | | |
| Prior Action 3. The Borrower has created the National Hydrometeorological Service Institute as an autonomous government agency, as evidenced by Law No. 209, dated April 22, 2021, and published in the Official Gazette on the same date. | Positive effect (indirect) | Positive effect (indirect) |
| Policy Area 3. Development of territorial responsibilities for disaster risk management | | |
| Prior Action 4. The Borrower has created a Territorial Development Directorate and mandated, among its responsibilities, the planning and coordination of activities related to disaster risk reduction at the subnational level, as evidenced by Executive Decree No. 89, dated February 26, 2021 and published in the Official Gazette on the same date. | Positive effect (indirect) | Positive effect (indirect) |

⁵⁷ See more in section 5.2

⁵⁸ See more in section 5.1

ANNEX 5: PROGRESS TOWARDS ACHIEVING FIRST PANAMA DPL WITH A CAT DDO'S RESULT INDICATORS TARGETS

First DPL with Cat DDO Policy Area – Strengthening of the institutional and legal framework for DRM

| Key Outcomes | Key Outputs | Progress towards achievement of targets as of June 2021 (Project closing date) |
|---|--|--|
| Increased Government of Panama's capacity for disaster risk reduction | Disaster Risk criteria incorporated in the National Public Investment System (SNIP) (target, guidelines incorporated into the SNIP). | <p>Since 2011, the Directorate of Investment Programming (DPI), a specialized unit within the Ministry of Economy and Finance (MEF), engaged in building the Borrower's roadmap to incorporate disaster risk analysis in the public investment programming. With the technical support of the World Bank Global Facility for Disaster Reduction and Recovery, DPI developed a disaster risk management (DRM) budget classifier to improve the Borrower's capacity to track and report expenditures in disaster risk reduction-related activities and investments. The DRM classifier and the methodology for its implementation were piloted in 2017 as part of the redesign of the DPI's "Investment Project Database."</p> <p>MEF approved the creation of the new DRM budget identifier as part of the National Budget's classification system, which will allow government agencies to track investment proposals, as well as the resources earmarked for <i>ex-ante</i> DRM interventions (Resolution No. 030, of March 2013). The DRM classifier was piloted in 2017, as part of the redesign of the National Public Investment System (SNIP) and has been used in budget preparation cycles through 2018 to 2020.</p> <p>MEF's DIP has also included disaster risk analysis considerations into the SNIP's Procedures Manual and developed guidelines for integrating disaster risk evaluations into public investment assessments; as well as prepared and submitted to the Minister of Finance a bill for a new Public Investments Law, which mandates the incorporation of disaster risk analysis in the public investment planning processes.</p> |
| | Increased number of provinces with updated protocols for disaster preparedness and response | <p>The respective Results Indicator's target was achieved and surpassed. The target was to update the response protocols in six provinces. The approval, in 2016, of the National Disaster Emergency and Response Plan triggered the update of the disaster emergency protocols of each of the country's ten provinces.</p> <p>Guided by the National Plan's directives, the National Civil Protection System (SINAPROC) continues strengthening the country's disaster preparedness and emergency response capacities across the entire country.</p> <p>During its inaugural session, held in June 2019, Panama's Disaster Risk Management Platform, led by SINAPROC's Director General, discussed the draft of a proposed new National Disaster Risk Management Plan for the 2019-2030 period. SINAPROC is also reviewing the country's regulatory framework for DRM as part of its efforts to develop a bill aimed at introducing amendments to improve the current SINAPROC's</p> |

| Key Outcomes | Key Outputs | Progress towards achievement of targets as of June 2021 (Project closing date) |
|--|---|---|
| | | <p>Law No.7.</p> <p>SINAPROC, through the country's Emergency Operations Committee (COE), developed a National Preparedness Framework for Post-Disaster Recovery and started implementation of a National Prevention Plan for Tourist Destinations in 2016. SINAPROC is also carrying out disaster risk reduction awareness workshops aimed at local communities in urban/suburban areas (e.g., Chepo District, San Miguelito's Victoriano Lorenzo District, and Juan Díaz District), as well as Indigenous Peoples' communities of the Ngäbe Bugle region.</p> <p>In 2019, MEF through its specialized agency, DICRE, supported by the Bank's technical team, initiated a multi-sectoral process aimed at developing a standardized tool for the assessment of damage and losses caused by disasters. The tool is being customized to meet the country's particular reporting needs, taking into consideration Panama's disaster risk profile. The consultation process involves seven key government sectors.</p> |
| Increased contribution of key sectors to disaster risk reduction | Disaster sensitive ministries or agencies carried out DRR priority actions identified in the PNGR 2011-2011 | <p>This target was achieved in 2011, when MEF, the Ministry of Housing and Land Management (MIVIOT), and Ministry of Environment engaged in carrying out relevant DRR priority actions as mandated in the 2011-2015 Disaster Risk Management National Plan. Additionally, three other government agencies, Ministry of Education (MEDUCA), Ministry of Health; and the Panamanian National Water and Sanitation Utility Institute (IDAAN) engaged in the implementation of key strategic DRM actions relevant to their respective sectors by 2014. These actions were aligned with the recommendations of the then draft 2015-2020 Disaster Risk Management National Plan.</p> <p>MIVIOT has made significant progress towards the adoption of the Panama's National Land Management Policy, the supporting Implementation Plan, and Territorial Management Instruments. The proposed policy promotes a disaster-risk-sensitive approach towards territorial planning.</p> <p>The Ministry of Environment took the rotating Presidency of the DRM Platform's Steering Committee in 2019. The Ministry plays a key role in promoting an update of the national DRM Plan to reflect the country's evolving disaster risk profile, the observed climate variability, and the expected adverse impacts of climate change.</p> <p>MEDUCA continues implementing the country's regulations that require the incorporation of DRM in the educational curricula at all levels.</p> <p>IDAAN developed an inventory of the <i>Chilibre-Las Cumbres</i> critical water-network infrastructure, as input</p> |

| Key Outcomes | Key Outputs | Progress towards achievement of targets as of June 2021 (Project closing date) |
|--|--|---|
| | | <p>for the assessment of seismic risk levels of the <i>Federico Guardia Conté de Chilibre</i> Water Treatment plant.</p> <p>The Ministry of Housing and Land Use Planning (MIVIOT) approved, through a Ministerial Resolution in 2015, a proposal to update the regulatory framework for local land use planning. The framework incorporates disaster-risk considerations as key zoning criteria.</p> <p>MIVIOT also coordinated a probabilistic seismic risk assessment for the Panama City Metropolitan Area, based on the successful implementation of and lessons learned from a similar study carried out in the David City in 2012. The risk assessment benefitted from the probabilistic-risk-assessment capabilities of the CAPRA platform.</p> <p>Under the leadership of the National Environmental Agency (ANAM), and through a participatory and comprehensive nationwide consultative process, the Government of Panama updated the National Policy on Integrated Water Resources Management and the “Regulatory Body of the Water Law” (Executive Decrees No 479 and 480 respectively, April 2013), introducing key DRM considerations into the water management sector.</p> <p>ANAM updated the National Policy on Climate Change in February 2013, which includes a component on DRM.</p> |
| Disaster risk financing strategy and financial protection instruments in place and ready for use in case of extreme events | DRFI Strategic Framework developed, and its Operational Plan adopted | <p>Since 2011, MEF has undertaken the following key activities to strengthen Panama’s financial protection policies, strategies and instruments through its specialized units: (a) Developed a Disaster Risk Financing and Insurance Strategic Framework which was formally approved in November 2014 through an Executive Decree, making Panama the first country in the Central American region to establish the legal framework for adoption of a Disaster Risk Financing and Insurance (DRFI) strategy. (b) MEF, with support from the World Bank/GFMDR-Finance & Markets teams, adopted the five-year Operational Plan to implement the country’s “Strategic Framework for the Financial Management of Disaster Risk” through a Ministerial Resolution in March 2016. With technical support from the World Bank, MEF conducted a cost-benefit analysis of potential disaster financing strategies. As part of this assessment process, the Government of Panama joined the Caribbean Catastrophe Risk Insurance Facility - Segregated Portfolio Company (CCRIF - SPC). In addition, Panama is currently assessing which sovereign-insurance strategy would provide an optimal level of catastrophic insurance coverage/cost ratio for the country with the Bank’s technical support.</p> |

ANNEX 6: FIRST DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CAT DDO (P122738)

General Description and Policy Program

1. **The first DPL with a Cat DDO was a single tranche operation for which Prior Policy Actions were fully implemented.** The operation, in the amount of US\$66 million, was approved by the Bank's Board of Directors on October 18, 2011, with the Loan Agreement signed on January 4, 2012, and declared effective on March 7, 2012. The DPL with a Cat DDO was renewed and the operation's closing date extended three times: on May 1, 2014; May 27, 2017; and October 27, 2020. The operation was disbursed twice (2016, 2020). The first withdrawal, in the amount of US\$25 million in April 2016, supported the government's response to the extensive ENSO⁵⁹-driven drought of 2015-2016. The provision of financial liquidity helped the Government of Panama in meeting urgent fiscal needs related to response and recovery. The second withdrawal, for the total remaining amount of US\$41 million, was requested by the government in March 2020 in the context of the evolving COVID-19 pandemic.
2. **The overall progress of the reform program (both Progress with Implementation and Achievement of Program Objectives) was deemed Satisfactory.** The program's Satisfactory rating has been extensively documented in the Implementation Status and Results Reports (ISRs) and Aides Memoire for this operation. With technical support from the Bank, the government continues to effectively address the three policy issues that have been the focus of the DPL with a Cat DDO: (a) increasing its capacity for disaster risk reduction (DRR); (b) carrying out DRR priority actions; and (c) DRM financial protection policies, strategies and instruments.
3. **The first DPL with a Cat DDO operation focused on strengthening the government's policy and institutional frameworks for DRM by strategically supporting interventions aimed at improving its capacity to fully implement its DRM program.** The three policy areas of the DRM program that were directly supported by the operation were: (a) updating of the DRM policy framework and guidelines; (b) establishment of an adequate institutional framework to efficiently implement the DRM National Policy; and (c) a clear institutional mandate to fully address the government's responsibilities for financial protection against disasters.
4. **Prior Action 1. Adoption of the Comprehensive National Disaster Risk Management Policy (PNGIRD).**⁶⁰ The development of the PNGIRD benefited from the thorough preparation and adoption by the Central American Integration System (SICA) member states of the Central American Comprehensive Disaster Risk Management Policy (PCGIR).⁶¹ The PNGIRD highlights Panama's commitment to creating an updated guiding framework for political action and decision-making from a holistic disaster risk management perspective as a crucial component of sustainable development, under the guiding principles of gender and social inclusion and empowerment, multisectoral coordination and interculturalism. The PNGIRD identifies processes, tools and mechanisms for its implementation, and specifically delegates to the Ministry of Economy and Finance (MEF) the responsibility to establish, in

⁵⁹ El Niño-Southern Oscillation.

⁶⁰ The Comprehensive Disaster Risk Management National Policy (*Política Nacional de Gestión Integral de Riesgo de Desastres*, PNGIRD) was approved by Executive Decree No. 1101 of 30 December 2010, and published in Official Gazette No. 26699-B of 12 January 2011.

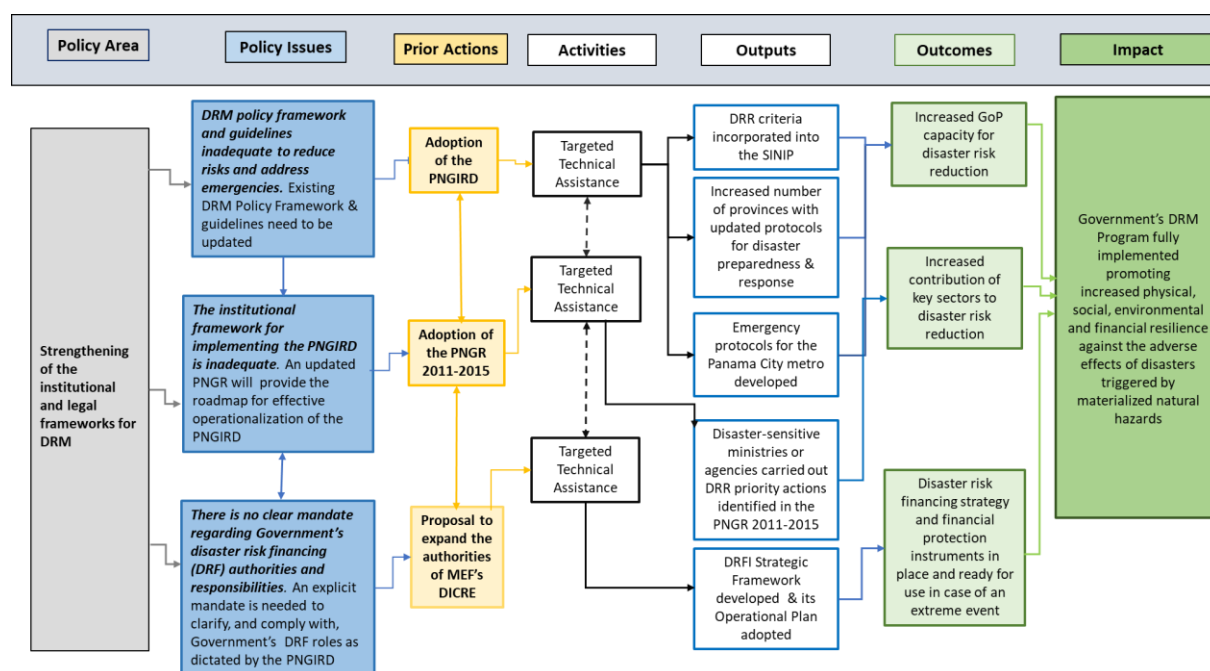
⁶¹ The Central American Comprehensive Disaster Risk Management Policy (PCGIR) was adopted by the member countries of the Central American Integration System (*Sistema de la Integración Centroamericana*, SICA) during the 35th Regular Meeting of the Heads of State and Government of Central American Countries, held in June 2010 in Panama City.

collaboration with the National Civil Protection System (SINAPROC), the actions that contribute to protecting the government's key investments in productive and social infrastructure. Therefore, the PNGIRD provided an adequate policy environment for the implementation of this DPL with a Cat DDO operation and the successful achievement of its PDO.

5. **Prior Action 2. Adoption of the National Disaster Risk Management Plan (*Plan Nacional de Gestión del Riesgo de Desastres*, PNGR) for the 2011-2015 period.** The PNGR is the main implementation tool for the PNGIRD and for operationalization of the DRM program. Updating the PNGR was a required prior action for the approval of the DPL with a Cat DDO operation. The updated PNGR provided directives and actionable guidance for the implementation of sector-specific DRR interventions explicitly identified in the PNGIRD. The PNGR promoted a multisectoral approach to DRM and CCA, in which government agencies, including MEF, the Ministry of Housing and Territorial Management (MIVIOT), MEDUCA, the Ministry of Health (MINSA), the Ministry of Environment and the water and sanitation utility (IDAAAN), carried out a series of sector-specific DRR interventions which created positive synergies across sensitive sectors, toward achievement of the operation's PDO.

6. **Prior Action 3. Proposal to expand the functions and responsibilities of the MEF Directorate of Investment, Concessions, and Risks (*Dirección de Inversiones, Concesiones y Riesgos del Estado*, DICRE).** Recognizing that financial protection must be an integral component of a comprehensive national DRM policy, the government sought to develop a robust disaster risk financing strategy. The strategy developed under the DPL with a Cat DDO operation comprises a set of layered risk-retention and risk-transfer instruments combined with effective DRR interventions, all of which contribute to creating a diversified portfolio of financing instruments that promote resilience of the productive and social sectors and improved institutional and technical capacity for DRM. This framework, put in place under the DPL program, sets out a systematic approach that has enabled the government to: (a) maintain a sound fiscal position at the national level, which is necessary to support long-term rehabilitation and reconstruction needs; (b) develop cost-effective and accessible financing mechanisms for immediate liquidity that can be rapidly channeled to priority institutions and sectors; and (c) reduce the impact of disasters at the individual, community and national levels.

Theory of Change of the First DPL with a Cat DDO



Assumptions:

1. The Government of Panama is fully committed to strengthening its DRM capacity through improved regulatory and institutional frameworks in order to build the country's overall resilience against the adverse impacts of materialized natural hazards.
2. The adoption and implementation of the PNGIRD provides the policy framework that promotes enhancements to the country's regulatory and institutional frameworks as well as to carry out sector specific DRR interventions that substantially contribute to reduce or mitigate the adverse impacts of natural hazards in sensitive sectors.
3. Increasing the authorities of DICRE contributes to create the enabling regulatory and institutional frameworks for building and implementing a comprehensive DRF strategy.
4. Through well-targeted Technical Assistance (TA) and adequate supervision of this operation, the World Bank and the government maintain an effective DRR policy dialogue, which in turn contributes to ensure that DRR actions carried out by relevant government agencies complement each other and contribute to creating positive synergies aimed at building resilience of public assets, populations and the economy against the adverse impacts of materialized natural hazards.

Summary of Progress in Implementing the Program's Results Indicators and Targets as of Closing Date

| Prior Action | Original Key Outcome Indicators (KOI) | Revised KOI/target (as agreed during the second renewal) |
|--|--|---|
| Policy Area Issue # 1: DRM policy framework and guidelines inadequate to reduce risks and address emergencies | | |
| Adoption of the Comprehensive Disaster Risk Management National Policy (PNGIRD) by Executive Decree No. 1101 of December 30, 2010, published in the National Gazette (<i>Gaceta Oficial Digital</i>) No. 266699-B, on January 11, 2011 | KOI: Increased GoP capacity for disaster risk reduction | |
| | Disaster risk criteria incorporated in the National Public Investment System (SNIP) (target, guidelines incorporated into the SNIP). | |
| | Increased number of provinces with updated protocols for disaster preparedness and response (baseline: 1, target: 4) | Consolidated new protocols and increased number of protocols Target: 6 (i.e., 2 more than the original target of 4) Status: Achieved |
| | | Develop emergency protocols for the recently inaugurated Panama City (subway) metro Target: Yes Status: Achieved |
| Policy Area Issue # 2: The institutional framework for implementing the PNGIRD is inadequate. | | |
| Adoption of the National Disaster Risk Management Plan (<i>Plan Nacional de Gestión del Riesgo de Desastres</i>, PNGR) for the 2011-2015 period. Completed by SINAPROC on August 10, 2011 | KOI. Key ministries carried out DRR priority actions identified in the 2011-2015 DRM Plan. Baseline: 0 | |
| | At least 3 ministries (e.g., MEF, MIVIOT and ANAM) have carried out DRR priority actions identified in the 2011-2015 DRM Plan (baseline: 0; target 3). | Government agencies carrying out DRR priority actions identified in the 2011-2015 DRM Plan Target: 6 (i.e., 3 more than the original target of 3) Status: Achieved. |
| Policy Area Issue # 3: There is no clear mandate regarding Government's disaster risk financing (DRF) authorities and responsibilities | | |
| Proposal to expand the functions and responsibilities of the MEF Directorate of Investments Concessions, and Risk (<i>Dirección de Inversiones, Concesiones y Riesgos del Estado</i>, DICRE). Completed by MEF on August 10, 2011. | KOI. DRM financial protection policies, strategies or instruments developed. | |
| | DRM financial management program developed. | Disaster Risk Financing Strategic Framework formally adopted |
| | | Operational Plan for the DRF Strategic Framework drafted and formally adopted Target: Yes Status: Achieved. |