



The World Bank

Panama Second Climate Resilience and Green Growth DPL (P181306)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 07-Feb-2024 | Report No: PIDA37170



BASIC INFORMATION

A. Basic Project Data

Country Panama	Project ID P181306	Project Name Panama Second Climate Resilience and Green Growth DPL (P181306)	Parent Project ID (if any) P179817
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date 18-Mar-2024	Practice Area (Lead) Environment, Natural Resources & the Blue Economy	Financing Instrument Development Policy Financing
Borrower(s) Republic of Panama	Implementing Agency Ministry of Economy and Finance (MEF)		

Proposed Development Objective(s)

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

Financing (in US\$, Millions)

SUMMARY

Total Financing	350.00
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DETAILS

Total World Bank Group Financing	350.00
World Bank Lending	350.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Climate change threatens economic growth and disproportionately affects the most vulnerable.** Panama suffers from



the impacts of both climate-induced natural hazards and altered weather patterns. The frequency and intensity of El Niño and La Niña events have increased, causing severe droughts and floods.¹ This puts the country's main assets and economic sectors at risk, including the Panama Canal and hydroelectric production, which accounted for nearly 63 percent of electricity generation over 2017-21. In August 2023, severe drought affected the levels of the Panama Canal, impacting vessel transit. The Panama Canal Authority imposed restrictions on navigation, limiting the number of ships and the vessel draft, resulting in restrictions not only to the number of ships but their allowed size. These restrictions have created delays which impact international trade and global supply chains. Indigenous peoples in coastal regions face additional climate-related challenges. For example, members of the Guna ethnic group are being relocated from their ancestral islands to the mainland due to rising sea levels and other climate hazards. The operation's focus on resilience is complemented by addressing sectors with high mitigation potential: energy, transport, and land use, land-use change, and forestry (LULUCF).

2. **Panama has very strong economic growth but efforts to address inequality are still required.** Panama has been one of the fastest-growing economies in the world, making it one of the few countries in Latin America and the Caribbean (LAC) to narrow the income per capita gap with more developed economies. However, Panama's income inequality is one of the highest in the region,² surpassed only by Brazil and Colombia. Poverty is highest in rural areas (28 percent) and indigenous *comarcas* (70 percent).³ Changing climatic conditions and physical damage from floods and hurricanes pose a threat to rural and indigenous household income, food security, and human capital. Panama's indigenous communities rely heavily on agriculture, therefore, enhanced climate adaptation through sustainable agriculture, forest conservation and management, ecotourism and conservation of natural capital are important to tackle poverty. In addition, the provision of basic public services has improved over the last decade, but access and quality indicators still vary significantly across the country. Despite recent efforts to ensure universal access to electricity, in some *Comarcas*, access and quality remain low.

Relationship to CPF

3. **The proposed operation is fully aligned with the objectives of the FY15-21 Country Partnership Framework (CPF)⁴, its Performance and Learning Review and the upcoming FY22-26 CPF, that will include specific focus areas around climate change adaptation and mitigation.** The Development Policy Loan (DPL) achieves the following objectives of the FY15-21 CPF: (i) Objective 4: Complement Social Assistance with Productive Inclusion under Pillar 2 (Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups); and (ii) Pillar 3: Bolstering Resilience and Sustainability. In addition, the reforms supported through this operation are aligned with three out of five priorities identified in the 2023 Systematic Country Diagnostic (SCD): (i) ensuring inclusion of vulnerable groups, (ii) promoting environmental sustainability and resilience to natural disasters, and (iii) strengthening public sector institutions. This DPL series builds upon a series of operations in Panama that have been supporting the country's reform agenda over a sustained period of time, the latest of which is the Panama Pandemic Response and Growth Recovery DPL series (P174107 and P175930).⁵ The DPL is also closely aligned with the directions of the World Bank Group's Gender Strategy for 2016-23, from ownership and control of assets, more and better jobs, human endowments, to voice and agency.

C. Proposed Development Objective(s)

¹ IPCC (2021).

² The 2019 Gini index was 49.8. See: <https://data.worldbank.org/indicator/SI.POV.GINI?locations=PA>

³ Panama - Systematic Country Diagnostics Update 2023 (English). Washington, D.C.: World Bank Group.

<http://documents.worldbank.org/curated/en/099092023102017335/BOSIB0764ca91c0bc087f700f00315dd88e>

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

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



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

Key Results

5. The operation supports, through Pillar I, reforms that foster a clean energy transition, socially inclusive low-carbon growth, and technological innovation for disaster preparedness. Pillar II supports climate and nature governance, enhanced institutional capacity for advancing the country's climate change adaptation and mitigation agendas, while fostering resilience and social inclusion. The proposed DPL series underpins Panama's efforts toward long-term sustainable growth by promoting key institutional reforms for decarbonization and climate resilience. Overall, the operations aims at a comprehensive set of results that address both climate change adaptation and mitigation, as well as the differentiated impact that these can have on different segments of population. To that regards, the expected results include enhanced competitiveness for access to solar energy, electromobility and connectivity, that would not only lower cost but enable increased access to low emission technologies specifically in *comarcas*. The operation also aims at mainstreaming climate change across sectors and specifically with Ministry and Finance, as well as across sector and sector plans, and to increase the effectiveness of adaptation and conservation policies and measures that would specifically benefit rural and costal population.

D. Project Description

6. **The operation supports institutional strengthening and policy reforms to increase the country's resilience.** Key institutional reforms include the development of climate change scenarios, which will optimize the availability of country specific climate data, and also inform the country's medium-term term planning and budgeting. Furthermore, the operation helps address climate change adaptation and mitigation through the decarbonization of land transport, the implementation of energy efficiency measures, forest conservation and restoration, as well as the protection of coastal ecosystems, oceans and the regulation of marine economic activities. Building on Panama's capacity to innovate and serve as a regional climate leader, the operation will support global public goods. In the area of energy efficiency, Panama is catalyzing the adoption of higher regional standards, which will stimulate markets for efficient appliances and prevent the recycling of obsolete and inefficient cooling systems across borders. Finally, the operation supports gender and inclusion-focused policies on rural electrification through renewable energy and digital connectivity, setting the model for peers in Central America and the broader region.
7. **This US\$350 million operation DPL is aligned with the 2019-2024 Strategic Plan (PEG) by supporting policy foundations towards an inclusive energy transition and promoting climate change resilience.** This operation is structured around two pillars: Pillar I supports reforms towards a clean energy transition and inclusive low-carbon development by: (i) implementing policies and institutional reforms to promote a transition to a greener and more resilient energy sector; (ii) promoting energy efficiency and electric mobility; and (iii) reducing gender inequities and promoting digital connectivity. Pillar II supports natural capital, climate and nature governance, and social inclusion by: (i) developing provisions for climate scenarios; (ii) strengthening the long-term climate governance framework and recognizing the role of Ministry of Economy and Finance (MEF) in mainstreaming climate into economic policies by updating its Climate Change Policy; (iii) tracking the progress of land use sector climate actions by mandating the use of the Restoration Monitoring System; and (iv) regulating Panama's fisheries activities for blue carbon growth.
8. **Pillar I focuses on the clean energy transition to achieve the country's Nationally Determined Contributions (NDC) commitments, a resilient and inclusive economy.** This pillar supports the country's efforts to foster sustainability and



resilience, addressing critical reforms to strengthen governance while fulfilling climate change and long-term sustainable development goals. Supported reforms include new regulatory and policy instruments that tackle emissions from the energy (including transport) sector (PA 1 – PA 2 – PA 3) and promote inclusion and gender equity (PA 3 – PA 4).

9. **Pillar II supports Panama's reform program to conserve and sustainably manage natural capital for resilient growth** by: (i) integrating low-carbon and resilient development into its sectoral and economy wide planning through mandatory periodic climate scenarios; (ii) strengthening its long-term climate governance framework through an updated Climate Change Policy that reinforces its Paris commitment and recognizes the role of MEF in mainstreaming climate into economic policies; (iii) enhancing transparency in tracking the progress of land use sector climate actions through mandating the use of the Restoration Monitoring System; and (iv) regulating fisheries activities for enhanced conservation and blue economy.

E. Implementation

Institutional and Implementation Arrangements

10. **MEF will be the main agency responsible for the monitoring, evaluation, and results framework and will coordinate actions across relevant ministries and agencies involved in the operation.** The agencies responsible for the implementation of the PAs include: (i) Pillar I: Ministry of Social Development (MIDES), National Secretariat of Energy (SNE), Public Services National Authority (ASEP), the Transit and Transport Authority (ATTT) and MiBus; and (ii) Pillar II: Ministry of Agricultural Development (MIDA), and Ministry of Environment (MiAmbiente). The World Bank will monitor implementation of the DPL through regular supervision missions, including virtual missions. The World Bank will maintain close dialogue with counterparts throughout preparation and implementation and will collaborate with

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

Poverty and Social Impacts

11. **The PAs in DPL2 are expected to positively contribute to poverty reduction and shared prosperity.** PAs under Pillar I support the implementation of Panama's Energy Transition Agenda (ETA), which helps reduce poverty and increase shared prosperity. The ETA is expected to positively impact social and welfare outcomes in the long term, especially PA3 on universal renewable-based rural electrification through *Plan Colmena*. PAs 1 and 2 support the creation of the legal and implementation framework for the ETA. They are not expected to have negative impacts on poverty and lead to positive health impacts in the short run (PA 1), and a more efficient and rational use of energy (PA 2). PA1 is expected to have direct health benefits for vulnerable populations by preventing the premature death of more than 400 people from respiratory diseases associated with air quality. Furthermore, the energy efficiency policy supported by PA 2 enables broader access to energy-efficient appliances. By 2030, the reduction of solar system costs (PA 3) will facilitate implementation of *Plan Colmena* which is expected to benefit 90,000 rural households currently without electricity access and more than 70,000 without access to improved energy sources for cooking. These are expected to reduce poverty, and improve equity and health, as electricity has positive impacts on employment, productivity, and education. Lastly, PA 4 will increase the coverage of telecommunications services in rural areas and is expected to have positive impacts on poverty reduction and shared prosperity. This is expected to improve service quality and digital literacy allowing vulnerable populations' access to educational resources, easier transport planning, emergency response and potential new markets.



Environmental, Forests, and Other Natural Resource Aspects

12. **The measures supported under DPL2 are expected to have an overall positive impact on the environment, forests, and other natural resources.** The proposed policy reforms foster better policy making, enhanced environmental management, reduced emissions, and improved climate resilience. Seven out of eight PAs are expected to positively impact Panama's environment with the remaining PA (PA 4) likely to have neutral impact. Three PAs (PA 1, PA 2, and PA 3) also pose environmental risks which Panama's regulatory systems are well placed to manage.

G. Risks and Mitigation

13. **The overall risk of the operation is moderate.** Three risk categories are assessed as substantial (*political and governance, institutional capacity for implementation and sustainability, and stakeholder engagement*), with the remaining assessed as moderate. The *political and governance* risk is impacted by national elections which are scheduled for May 2024. Political priorities and interinstitutional coordination are likely to be affected by the political transition. The World Bank (WB) is closely working with the Government of Panama (GoP) to provide enhanced technical assistance and programming to reduce this risk. The *institutional capacity for implementation and sustainability* risk arises from the relatively low technical capacity of Government institutions, combined with a complex reform program that requires coordination across agencies. This risk is mitigated by: a consistent and strong GoP engagement in the implementing sectors; the GoP consistent effort to strengthen the interagency collaboration and foster participatory processes with academia and CSOs, specifically for climate-related policy changes; and strong, consistent coordination efforts led by MEF. The *stakeholder engagement* risk arises from enhanced attention of the public in Panama to natural resource management and decarbonization policies. This is mitigated through enhanced efforts by the GoP in consultation and engagement processes.

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Implementing Agencies



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APPROVAL

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Approved By

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