



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 15-Mar-2023 | Report No: PIDA35824



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Panama	P179817	Panama Climate Resilience and Green Growth DPL (P179817)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	27-Apr-2023	Energy & Extractives	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Panama	Ministry of Economy and Finance (MEF), Ministry of Environment (MiAmbiente), National Secretariat of Energy (SNE)		

**Proposed Development Objective(s)**

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

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	150.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	150.00
World Bank Lending	150.00

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**



## Country Context

- 1. Despite high economic growth in Panama, social inclusion and equity have been lagging behind.** Panama has been one of the fastest-growing economies in the world, with an average annual growth rate of around 6.1 percent between 2001-2019. This exceptional growth has made it one of the few countries in Latin America and the Caribbean (LAC) to make progress in converging to the income per capita of more developed economies. However, income inequality positions Panama as a country with one of the highest Gini Index in the region (49.8)<sup>1</sup>. Education and health outcomes also lag high- and middle-income countries significantly. Panama's Human Capital Index (HCI)<sup>2</sup> of 0.50 is below that of middle-income countries in the region such as Costa Rica (0.63), El Salvador (0.55), and Nicaragua (0.51). In addition, social indicators such as poverty headcount<sup>3</sup>, rural poverty and poverty among Indigenous People (IP) are more aligned with those of countries with much lower income levels, representing approximately 12.0, 28.2 and 43.2 percent by 2019, respectively, and poverty in the *Comarcas* reached almost 70 percent in 2019. Labor force participation rate in Panama also shows high inequities between females (50.4 percent), and males (72.6 percent)<sup>4</sup>. Since 1990, female labor force participation has increased, but the employment rate of vulnerable females has worsened; additionally, women spend 2.4 times as much time on unpaid domestic and care work than men<sup>5</sup>. Growth is expected to be led by private investment, which is projected to grow around 9 percent in 2023-25, particularly as the pipeline of Public Private Partnership (PPP) projects mature. Public investment is forecast to slow down over this period. Private consumption is expected to grow at a solid pace of around 5.7 percent.
- 2. While Panama is not a large greenhouse gas (GHG) emitter, decarbonization pathways are a crucial element of the country's sustainable green growth<sup>6</sup> trajectory.** Panama is a carbon-negative country due to its forest carbon removals – meaning that its forests absorb more carbon than what the country emits. However, there is an important deforestation trend and removal of forest coverage already contributes significantly to Panama's GHG emissions<sup>7</sup>. Additionally, while the latter are low compared with regional benchmarks, they remain relatively high in per capita terms. Thus, the conservation of natural capital and, specifically forest resources, as well as energy efficiency measures are important to support the country's mitigation agenda and its contribution to global objectives. In addition, forests are essential to provide local income opportunities through ecotourism and sustainable management of natural capital, while also enhancing resilience to climate change, while energy efficiency measures strengthen business competitiveness and affordability of energy bills for households.

<sup>1</sup> World Bank Data. See: <https://data.worldbank.org/indicator/SI.POV.GINI?locations=PA>

<sup>2</sup> The index measures how productive a child born today can expect to be by age 18, compared with a scenario where he/she would enjoy complete education and full health.

<sup>3</sup> Using a threshold of US\$6.85/day, purchasing power parity 2017).

<sup>4</sup> WBG. Panama Gender Landscape, 2022. Available at:

<https://documents1.worldbank.org/curated/en/099429407032211560/pdf/IDU007f3752f07c0e04e140835b0654155f0199b.pdf>. Access on: Jan. 8<sup>th</sup>, 2023.

<sup>5</sup> WBG. Panama Gender Landscape, 2022. Available at: Access on: Jan. 8<sup>th</sup>, 2023.

<sup>6</sup> Understood as low-emission economic growth, with focus on social inclusion and environmental sustainability.

<sup>7</sup> Emissions mainly stem from the energy sector contributing 49 percent of total emissions registered in 2017 (strongly driven by fuels for ground transportation), followed by the Land Use, Land Use Change and Forestry (LULUCF) sector with 20 percent, and the agriculture sector with 16 percent.



Relationship to CPF

3. **The proposed operation is fully aligned with the objectives of the FY15-21 CPF for Panama discussed by the World Bank’s Board of Executive Directors on March 2, 2015, and the Performance and Learning Review (PLR) for the CPF FY2015-21.** The proposed programmatic DPL series is a core instrument to achieve the following objectives of the CPF: (i) Objective 4: Complement Social Assistance with Productive Inclusion under Pillar 2 (Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups); and (ii) Pillar 3: Bolstering Resilience and Sustainability. In addition, the program reforms supported through this operation are aligned with 4 out of 5 priority areas linked to growth, inclusion, and sustainability in Panama, identified in the 2015 SCD: (i) infrastructure improvements, especially energy; (ii) institutions (efficiency, regulation, and transparency); (iii) marginalized groups and Indigenous People; and (iv) management of water resources and resilience to natural disasters. 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), which contributed to protecting human capital during COVID-19 and supporting a more inclusive and sustainable economic recovery. 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)

4. **The development objective of the proposed operation is to establish policy foundations to foster low-emission and sustainable economic growth and climate change resilience.** Pillar I supports reforms that foster a clean energy transition, socially inclusive low-carbon growth, and technological innovation to enable disaster preparedness. Pillar II supports the country’s efforts to sustain natural capital for resilient growth by strengthening climate and nature governance, enhance institutional capacity for advancing the country’s climate change (CC) adaptation and mitigation agendas while fostering resilience and social inclusion. The proposed DPL series underpins Panama’s efforts toward long term sustainable growth by addressing key institutional weaknesses for decarbonization and climate resilience.

Key Results

Indicator Name	Baseline	Target
<b><i>Pillar I – Support reforms to implement energy transition and socially inclusive low-carbon growth</i></b>		
<b>Results Indicator #1:</b> Number of charging stations per 100 km of the primary and secondary road network	2.2 [2022]	17.3 [2025]
<b>Results Indicator #2:</b> Number of electric buses acquired or under procurement by the Panama City public operator (MiBus)	5 [2022]	55 [2025]
<b>Results Indicator #3:</b> Number of air conditioners with improved Minimum Energy Performance Standards (MEPS)	96,000 [2021]	124,000 [2025]
<b>Results Indicator #4:</b> Number of refrigerators with improved Minimum Energy Performance Standards (MEPS)	51,000 [2021]	117,000 [2025]
<b>Results Indicator #5:</b> Number of <i>Corregimientos Colmena</i> with implemented energy access interventions	0 [2021]	60 [2025]



<b>Results Indicator #6:</b> Number of female-headed households electrified through Plan Colmena	0 [2021]	550 [2025]
<b>Results Indicator #7:</b> Number of indigenous women with skills to perform installation and maintenance tasks of isolated photovoltaic systems in their communities	0 [2021]	200 [2025]
<b>Results Indicator #8:</b> Percentage of population covered by 4G networks	73 [2021]	87 [2025]
<b>Results Indicator #9:</b> Number of indigenous regions (provincial and comarca level) with at least 5 percent of their geographical area covered by 4G networks <sup>8</sup>	0 [2022]	3 [2025]
<b><i>Pillar II – Establish policy foundations to sustain natural capital for resilient growth</i></b>		
<b>Results Indicator #10:</b> Negative Carbon balance maintained <sup>9</sup>	Yes [2021]	Yes [2025]
<b>Results Indicator #11:</b> Percentage of approved Environmental Impact Assessments (EIA) processes category II and III that integrate climate mitigation and resilience considerations	0 [2021]	100 [2025]
<b>Results Indicator #12:</b> Number of agritourism fincas certified	0 [2021]	480 [2025]
<b>Results Indicator #13:</b> Zero net deforestation of mangroves in National Protected Areas achieved	No [2021]	Yes [2025]
<b>Results Indicator #14:</b> Percentage of marine area under conservation and sustainable management schemes	30.5 [2021]	50 [2025]

#### D. Project Description

- This programmatic operation is structured around two pillars:** Pillar I supports reforms that foster a clean energy transition, socially inclusive low-carbon growth, and technological innovation to enable disaster preparedness. Pillar II supports the country’s efforts to sustain natural capital for resilient growth by strengthening climate and nature governance, enhance institutional capacity for advancing the country’s climate change (CC) adaptation and mitigation agendas while fostering resilience and social inclusion. The proposed DPL series thus underpins Panama’s efforts toward long term sustainable growth by addressing key institutional weaknesses for decarbonization and climate resilience.

#### E. Implementation

##### Institutional and Implementation Arrangements

- The Ministry of Finance (MEF), in close coordination with the Ministry of Environment (MiAmbiente), the National Secretariat of Energy (SNE), and other authorities, will take the lead in monitoring progress and implementation of this operation, with ongoing support from the World Bank. The results indicators selected to monitor and evaluate

<sup>8</sup> Panama has four provincial-level indigenous regions: Emberá-Wounaan, Guna Yala, Ngäbe-Buglé, and Naso Tjër Di, as well as two municipal-level indigenous regions: Guna de Madungandí and Guna de Wargandí

<sup>9</sup> Based on national Greenhouse Gas (GHG) inventory



implementation progress and the achievement of program outcomes will be monitored by the institution that takes the coordination lead for the respective prior actions.

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

### Poverty and Social Impacts

7. **The DPL supports several actions that are expected to build the grounds for positive effects on poverty reduction and shared prosperity.** Policies in Pillar I set the legal framework to enable the implementation of Panama's Energy Transition Agenda (ETA) and can help reduce energy poverty and boost prosperity for vulnerable populations when materialized into specific policy actions. The Prior Actions (PAs) in this Pillar (i) support the creation of the legal framework of the ETA action lines (PA 1, 2); (ii) support the implementation of renewable-based rural electrification through Plan Colmena (PA 3); and (iii) take steps to lower the price of broadband access and boost adoption of mobile telephony in underserved areas (PA 4). The ETA can potentially have significant and positive social and poverty in the long term, especially Prior Action 3 on universal energy access and gender equality. Other prior actions are expected to positively impact labor market activation, access to essential services, and poverty reduction for vulnerable groups by promoting a green and inclusive economy.
8. **The Prior Actions in Pillar II are not expected to affect poverty or income distribution negatively. Instead, they can bring direct (PA 5, 7, and 8) and indirect (PA 6) positive welfare effects in the long run if their action lines are effectively implemented.** Prior Action 5 supports Panama's National Plan of Climate Action, updated Nationally Determined Contribution, and the resulting proposal for a general climate law. The Law's sectorial actions will potentially (i) foster the human development of more than 90 thousand rural households when the universal energy strategy is implemented; (ii) improve the health conditions in the long term of 259 thousand people by promoting universal access to improved sewage services; and (iii) promote equity and poverty reduction by fostering sustainable tourism and creating new jobs for the local communities of the protected areas under the biodiversity strategy if effectively implemented. In addition, actions on risk identification in the sustainable agriculture sector or towards improving safety and resilience standards for human settlements are expected to positively impact the population's food security and build the climate resilience of vulnerable people when effectively implemented.

### Environmental, Forests, and Other Natural Resource Aspects

9. **The measures supported under the proposed DPL are expected to have an overall positive impact on the environment, forests, or other natural resources.** The proposed policy reforms aim at fostering low carbon development and enhance resilience. Most of proposed prior actions are likely to have positive impact on Panama's environment, natural resources, and forests. Two prior actions (PA 1 and PA 2) could have a potentially negative impact if direct and indirect effects from investments incentivized by policy changes are not managed adequately, but Panama has a robust system for their adequate management.
10. **Most of Prior Actions have the potential to deliver significant positive environmental outcomes over the long-term particularly with regard to low-carbon and climate-resilient development.** PA 1, PA 2 and PA 3 will directly contribute to mitigating GHG, and thereby not only advance the Government's ambitious zero net emission target, but also enhance air quality through reduced particle pollution. PA 5 will further strengthen the country's policy framework for climate change adaptation and mitigation and harnessing co-benefits through policies and investments. Mainstreaming climate criteria in public and private investments based on PA 6 will further strengthen the country's investment framework and amend an already robust environmental impact system with additional long term



resilience criteria and mitigation considerations. PA 7 will enhance the country's conservation framework and help rural population to diversify income through nature based tourism while safeguarding the country's natural capital. PA 7 and PA 8 will promote a sustainable blue economy, and thereby contribute to reducing environmental degradation, mitigate GHG emissions, and enhance the livelihood of coastal populations.

## G. Risks and Mitigation

11. **The overall risk of the operation is moderate.** The only risk category assessed as substantial is institutional capacity for implementation and sustainability. Mitigation measures are in place. These include strong joint dialogue with the IMF on macroeconomic policy and cooperation with other development partners, as well as provision of technical assistance to the Government of Panama on the main policy areas of this operation.

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**APPROVAL**

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**Approved By**

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