The PMR Project Implementation Status Report should be prepared by the Implementing Country or Technical Partner, with the support of the Delivery Partner and/or the PMR Secretariat. For any questions related to the preparation of the PMR Project Implementation Status Report, please contact the PMR Secretariat at: pmrsecretariat@worldbank.org.

1. SUMMARY INFORMATION

<table>
<thead>
<tr>
<th>Implementing Country/Technical Partner:</th>
<th>Panama beneficiary Country – Implemented by the World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting Period:</td>
<td>3/31/2019 to 09/30/2020</td>
</tr>
<tr>
<td>Report Date:</td>
<td>September 30, 2020</td>
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<tr>
<td>Implementing Agency:</td>
<td>• National Secretariat of Energy (SNE)</td>
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<td></td>
<td>• Ministry of Environment (MiAMBIENTE)</td>
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<tr>
<td>Contact Person:</td>
<td>• Jorge Rivera Staff (National Secretariat of Energy)</td>
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<tr>
<td></td>
<td>• Guadalupe Gonzalez (Alternative Contact Person,</td>
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<tr>
<td></td>
<td>Electricity Director, National Secretariat of Energy)</td>
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<td></td>
<td>• Milciades Concepción (Ministry of Environment)</td>
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<td></td>
<td>• Ligia Castro (Alternative Contact person, Climate</td>
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<td></td>
<td>Change Director, Ministry of Environment)</td>
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<tr>
<td></td>
<td>• Ana Domínguez (Alternative Contact person, Head of</td>
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<tr>
<td></td>
<td>Mitigation Department, Climate Change Directorate)</td>
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</table>

| Grant Executed By:                     | World Bank Group                                         |
| Grant Effectiveness and Closing Dates: | 12/21/2018 - 02/28/2021                                  |
| Grant Amount (USD):                    | USD 500,000 PMR Targeted Support (2018-2020)            |
|                                       | USD 200,000 - Just in Time (2020)                        |
| Funding Mobilized (USD):               | Other:                                                   |
|                                       | • USD$ 100,000 Collaborative Instruments for Ambitious   |
|                                       |   Climate Action (CIACA);                                |
|                                       | • USD$ 850,000.00Capacity Building Initiative for         |
|                                       |   Transparency (CBIT).                                  |
2. OVERVIEW

The Partnership for Market Readiness (PMR) has provided support to the Government of Panama to identify the options available to decarbonize the economy through explicit and implicit carbon pricing instruments since 2018. Below a summary of main activities:

1. **Assess mitigation policy instruments available to support the decarbonization**

Stocktaking of the available mitigation policy instruments suitable to Panama’s context with a special focus on carbon pricing instruments and considering other sector-specific mechanisms for implicit carbon pricing. Based on the results of the analysis and the consultations done through various workshops with different stakeholders, the GoPN selected three mitigation policy instruments for a further in-depth analysis based on different criteria such as implementation requirements, alignment with country priorities, and the advantages, barriers, and considerations related to the complexity of the instrument for its design and subsequent long-term maintenance and applicability. The instruments selected were (i) energy efficiency certificates, (ii) sectoral crediting, and (iii) results-based finance.

2. **MRV system design and GHG data management**

The development of a domestic carbon market is a fundamental piece of Panama’s mitigation efforts in the context of the Paris Agreement and its NDC. A FIRM (Carbon Limits) is currently working in the design of a solid MRV system to support the quantification and reporting of emissions at different level (national, municipality and corporate), mitigation actions and information related to needs and support received as part of the reporting provisions established by the UNFCCC and will facilitate the use of emission offsets created by existing programs in a potential domestic carbon market and/or as part of an international carbon offset mechanism. A domestic MRV system and a national registry for emissions and mitigation actions would facilitate the quantification of emission reductions at different levels to inform the construction of a bottom-up National GHG Inventory. The “bottom-up” approach construction of the GHG Inventory will ensure the project/activity or program level reductions as part of the GHG effects and changes in GHG emissions due to the mitigation action are visible in this inventory and thus can be accounted under the NDC implementation.
3. Diagnostic of fiscal system to support long-term decarbonization objectives

The objective of this activity is to provide a comprehensive diagnosis of the Panamanian fiscal system to map all the taxes, fiscal incentives, and subsidies that are associated with activities, products, and services that generate directly or indirectly GHG emissions. The consultancy will include a thorough analysis of the legal and regulatory framework and will propose a potential shift to align the tax levels with the related amount of emissions, ensuring a positive or neutral fiscal impact.

4. Next generation of domestic and international carbon market markets

This activity has the objective to assess the viability and requirements to implement a voluntary domestic carbon market in Panama considering eligible sectors and ongoing programs such as the Energy Efficiency (EE) program and forestry actions, which have the potential to generate emission offsets that can be used in a domestic carbon market and/or as part of an international carbon offset mechanism aligned with the definitions that will be established by the article 6 of the Paris Agreement.

4.1 Assessment on design options for a domestic voluntary carbon market

This assessment reviewed the institutional architecture, legal framework, streamlined rules, and procedures required to develop a domestic carbon market. The analysis considered previous PMR-supported country studies (e.g., Costa Rican national carbon neutrality program), Panama’s context, and key aspects such as (i) the current energy sector emissions measuring and reporting system, (ii) priority emissions reduction strategies, policies, and programs by key sectors, and (iii) carbon standards and GHG protocols and methodologies that could be considered for adoption.

4.2 Energy Efficiency program

The WBG has been supporting Panama to promote a rational and efficient use of energy, which will contribute significantly to emissions reduction in various sectors of the economy, including the energy sector. This ambitious energy efficiency (EE) regional program has the potential to generate emission offsets. This activity assessed how emission reductions generated in Panama’s EE work program could be best used in an international carbon offset mechanism (e.g., a cooperative arrangement under Paris Agreement Art.6) and/or a potential domestic carbon market. The activity focused primarily on the impacts of EE in appliances (refrigerators and air conditioners initially) and green buildings codes.

4.3 Forestry

The objective of this activity is to support the GoPN to identify and analyze pathways for the integration of forestry actions in a voluntary market and design its forest registry for mitigation actions. The activity will identify, select, and analyze, the types of forest carbon actions (e.g., REDD+, Improved Forest Management (IFM), Reforestation, Agroforestry, etc.) that could potentially generate offset credits to be sold in a voluntary domestic, or future compliance,
In the current COVID context, carbon finance is a central element to the country’s recovery strategy, and forest offset mechanisms are key to enhance income opportunities for the rural population and enhance their potential for income diversification through carbon finance for a climate resilient future.

5. Policy instrument assessment: emissions standards for vehicles

Transport is one of the highest emitters in Panama but there was no vehicle emission measuring and reporting program in place. In this context, the Ministry of Environment (MiAMBIENTE) and the National Secretariat of Energy (SNE) were particularly interested to include vehicle emission standards as part of the vehicle Inspection & Maintenance (I/M) program that was being developed. PMR supported the incorporation of a vehicle emissions measuring and reporting system with emission limits as part of the I/M program being designed, provided technical recommendations about the appropriate equipment to use to measure emissions and the guarantees and certifications to be met, and recommendations to ensure the design considers the need to transfer emissions data to the National Registry. The objective was to support the GoPN to include vehicle emissions standards and improve emissions registry, data management, and reporting processes.

6. South-south program on MRV architecture

The objective of the South-south collaboration between Panama and other PMR Countries (e.g. Costa Rica and Jordan) is to leverage and benefit from the experience and know-how built under the PMR program to support the design of national MRV systems, considering Panama’s context and the undergoing design of the Reduce Your Footprint’s platform, which will serve as the national climate transparency platform. This activity will also explore potential synergies in Central American region to support the development of MRV systems and promote a cohesive regional integration of systems, platforms, and procedures.

As a result of PMR’s engagement with the GoPN, Panama adhered to the Coalition of Finance Ministers for Climate Action.

| Differences between the Objectives/Activities in the Market Readiness Proposal and the Grant Agreement |
|---|---|
| Are there any important and material differences between the objectives/activities proposed in the Market Readiness Proposal and endorsed by the Partnership Assembly of the PMR and those agreed to in the Grant Agreement? | No material differences but some adjustments as per request from the SNE and MiAmbiente. |
Agreement with the Delivery Partner and described in the Project’s Results Framework?

- Due to COVID19, and after consultation with the GoPN, Task 3.2 (Raise Social Awareness and Design a Communication Plan) will not be executed under this Grant. The GoPN expects to include this activity as part of Panama’s PMI request.
- With the fund from Task 3.2, and as requested by MiAmbiente, a consultancy will identify and analyze pathways for the integration of forestry actions in a voluntary market as part of the domestic carbon market assessment.
- The design of the MRV system will go beyond the energy sector, as initially expected.

**Implementation Progress by Component:** PMR Panama Targeted Support

**Activity 1: Upstream Policy Analysis to Assess Enabling Mitigation Policy Instruments Available to Support the Decarbonization of the Economy**

**Status:** **ONGOING**

**Summary:** A consulting group supported the GoPN in identifying the most suitable mitigation policy instruments to reduce emissions in the energy sector—including transport—, with a special focus on carbon pricing instruments and considering result-based mechanisms. The GoPN decided to pursue pathways for the conceptualization of a national carbon market (offsetting).

**Task 1.1. Analysis and Recommendations of Carbon Pricing Policy Options:** this task supported the GoPN in exploring and understanding the different options available to decarbonize the economy, with a special focus on the use of carbon pricing instruments in the energy sector. As part of a consultation process with the government and the consultants, the GoPN selected three instruments for a further in-depth analysis: (i) energy efficiency certificates, (ii) sectoral crediting, and (iii) results-based finance. **(Completed)**

**Task 1.2: Modelling Fiscal, Economic, and Sectoral Impacts of Pricing Carbon Emissions in Panama:** this task will assess the fiscal, economic, and sectoral impact of the three instruments selected under Task 1.1. The three instruments will have a special focus on three sectors (energy, transport, and forestry). **(Ongoing)**
### Task 1.3. Carbon Tax Assessment

As discussed with SNE and MiAmbiente, this task will focus on developing a comprehensive diagnosis of the Panamanian fiscal system to map all the taxes, fiscal incentives, and subsidies that are associated with activities, products, and services that generate directly or indirectly GHG emissions. The consultancy includes an analysis of the legal and regulatory framework and will propose a potential shift to align the tax levels with the related amount of emissions, ensuring a positive or neutral fiscal impact.

*(Ongoing)*

### Comments:

- Final outputs of Task 1.1 have been presented and approved by national authorities in June 2020 and a report summarizing this work has been issued as requested by the SNE and MiAmbiente.
- The diagnostic of the Panamanian fiscal system is ongoing and will be completed by January 2021.

### Activity 2: Support the Domestic and International Carbon Market Readiness

**Status:** ONGOING

**Summary:** An assessment including a preliminary analysis of the institutional architecture required to develop a domestic carbon market was provided and the capacity of the GoPN’s was strengthened to understand how to generate carbon offset opportunities from the different ongoing projects/initiatives in the energy sector, mainly in energy efficiency and transport, and forestry.

**Task 2.1: Domestic and International Carbon Market Assessment.** In coordination with the GoPN, the consultants performed a comprehensive analysis of the institutional architecture, legal framework, and streamlined rules. The result of the analysis will be used to define an implementation plan for a national voluntary carbon market that will be prepared based on sectorial level priorities.

*(Completed)*

**Task 2.2: Develop the Necessary Core Building Blocks for a Domestic MRV System in the Energy Sector, Including Transport**

The FIRM (Carbon Limits) that will carry out this work has been hired. The FIRM will design an MRV system using an existing architecture with customizations features. This includes the design of the modules and tools for the operationalization of the policies.
including NDC targets), mitigation (MRV of Emission and MRV of Actions), and support/finance components of the Reduce Your Footprint Platform, previously known as Panama´s National Climate Transparency Platform. The design of the modules also includes the Sustainable National Greenhouse Gas Inventory System (SSINGEI, in Spanish)(aligned with IPCC 2006 guidelines) (under MRV for emissions at national level), the national registry and sectoral registries and tools for the complete digital operation of the mitigation, policies, and support/finance components, including the Corporate Reduce Your Footprint Program (under MRV for emissions at corporate level), and the upcoming Panama Offset Mechanism (under MRV of Actions), as well as for any Internationally Transferred Mitigation Outcomes (ITMOs) under the Paris Agreement.

(Ongoing)

**Task 2.3: Mainstreaming Carbon Considerations into Panama’s Energy Efficiency Work Program.** This task assessed the viability and requirements to implement a voluntary domestic carbon market in Panama considering eligible sectors and ongoing programs such as the Energy Efficiency (EE) program and forestry actions, which have the potential to generate emission offsets that can be used in a domestic carbon market and/or as part of an international carbon offset mechanism.

(Completed)

Additional task: Forestry actions in voluntary market. Analysis to identify and analyze pathways for the integration of forestry actions in a voluntary market and design its forest registry for mitigation actions. The activity will identify, select, and analyze, the types of forest carbon actions (e.g., REDD+, Improved Forest Management (IFM), Reforestation, Agroforestry, etc.) that could potentially generate offset credits to be sold in a voluntary domestic, or future compliance, carbon markets in Panama or internationally.

(Ongoing)

**Pilot Program: Vehicle emissions measuring and reporting program**
PMR supported the incorporation of a vehicle emissions measuring and reporting system with emission limits as part of the I/M program being designed, provided technical recommendations
about the appropriate equipment to use to measure emissions and the guarantees and certifications to be met, and recommendations to ensure the design considers the need to transfer emissions data to the National Registry. The objective was to support the GoPN to include vehicle emissions standards and improve emissions registry, data management, and reporting processes. **(Completed)**

| Comments: | The main task remaining under this component is the design of the MRV system. The contract for this work has been awarded to a FIRM (Carbon Limits). The team will continue to work towards the successful implementation of this activity which is expected to end in January 2021. In addition, the consultancy to identify and analyze pathways for the integration of forestry actions in a voluntary market and design its forest registry for mitigation actions is expected to be completed in December 2020. |

### Activity 3: Capacity Building, Social Awareness, and Communication Plan

**Status: ONGOING**

**Summary:** The objective of this activity is to support the capacity building, social awareness, and the design of a communications’ strategy on carbon pricing.

**Task 3.1: Capacity Building and Stakeholder Participation Planning**

A public-private workshop to discuss the results of Activity 1 was delivered. The Activity 1 provided support in defining the capacity building requirements to strengthen the capacity of the different teams involved in the implementation of mitigation policy instruments. The ongoing design of the MRV system will also identify the capacity building, institutional requirements, and governance arrangements to implement successfully Panama’s MRV system. **(Ongoing)**

**Task 3.2: Raise Social Awareness and Design a Communication Plan (Postponed)**

| Comments: | As agreed with the GoPN and the PMR team, Task 3.2 will not be executed under this Grant, but it is expected to be included in Panama’s PMI proposal. The funds for this task were redirected |
towards the analysis of pathways for the integration of forestry actions in a voluntary market and design its forest registry for mitigation actions.

**Implementation Progress by Component: Just in Time**

<table>
<thead>
<tr>
<th>Activity 1: South-South Collaboration</th>
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</thead>
<tbody>
<tr>
<td><strong>Status:</strong> <strong>ONGOING</strong></td>
</tr>
<tr>
<td><strong>Task 1: Support South-South Collaboration</strong></td>
</tr>
<tr>
<td>The objective is to promote a collaboration between Panama and other PMR Countries (e.g. Costa Rica and Jordan) and leverage and benefit from the experiences and know-how developed under the PMR program to support the design of a national MRV system in Panama. Two local consultants were hired to coordinate this effort and further support the coordination between Panama’s Ministry of Environment, the National Secretariat of Energy (S), the Ministry of Finance, and the Land Transit and Transport Authority (ATTT). <em>(Ongoing)</em></td>
</tr>
<tr>
<td><strong>Comments:</strong> Costa Rica and Jordan teams presented to the GoPN their MRV platforms and the different modules developed. Other workshops are expected in the upcoming months, in coordination with the FIRM in charge of designing the MRV system. A Concept Note for the South-south collaboration with Costa Rica was drafted and shared with counterparts.</td>
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<table>
<thead>
<tr>
<th>Activity 2: Assess and Customized Existing MRV Architecture</th>
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<tbody>
<tr>
<td><strong>Status:</strong> <strong>ONGOING</strong></td>
</tr>
<tr>
<td>This activity is in line with the <em>Task 2.2: Develop the Necessary Core Building Blocks for a Domestic MRV System in the Energy Sector, Including Transport</em> of the PMR project. Nevertheless, it expands the analysis beyond the energy sector and aims at performing a customization assessment to understand the customization requirements to use an existing MRV system architecture adapted to Panama’s context. It will also define the capacity building requirements and will consider the current state of information</td>
</tr>
<tr>
<td>Comments:</td>
</tr>
</tbody>
</table>

### 2. PROGRESS, CHALLENGES, AND LESSONS LEARNED

#### Important policy or regulatory developments related to the Grant’s objectives and activities: **Developments:**

- The GoPN is drafting new legal arrangements to strengthen its regulatory framework for the decarbonization agenda and to promote carbon pricing instruments focused on offsetting mechanisms. An Executive Decree is in progress.
- The work developed under PMR is supporting the series of two **DPF** for **Panama’s Pandemic Response and Growth Recovery Development Policy Operation P174107**, currently under discussion. More specifically, it is linked to:
  - DPF1 Prior Action #10. *“The Borrower has issued a decree creating the Sustainable System of National Greenhouse Gases Inventories (SSINGEI) and the National Emissions Registry, a precondition for defining carbon offsets and deploying a national carbon market”*.  
  - DPF2 Trigger #10. *“The Borrower has released preliminary guidelines to gradually implement and operate the initial phase of the national GHG emissions trading system (to be eventually linked with others in the region, i.e., Costa Rica)”*.  
- The work developed under the PMR is supporting the country in its NDC review process.
- Arrangements are being drafted for a presidential mandate for the design of a carbon market. Panama has the intention to establish itself as a hub for climate and development data and information in the region.
- As a result of this engagement, Panama adhered to the Coalition of Finance Ministers for Climate Action.
- The engagement with the Energy GP on electromobility is supporting the development and initial implementation of the National Strategy for e-mobility (ENME in Spanish) which is a
first solid first step in terms of policy and regulatory development and in line with the Energy Transition vision of the country.

- Through the PMR, a draft regulation and recommendations was provided to the ATTT to incorporate a vehicle emission measuring and reporting system with emission limits as part of the vehicle Inspection and Maintenance program.
- Panama adhered to the LAC Alliance of Voluntary GHG Management Programs, pooling knowledge, experience and responses to promote the use of carbon pricing instruments, which seek to support and facilitate a cost-effective reduction of GHG emissions.

**Lessons learned:** Political leadership is the most important asset to push the ambitious decarbonization agenda. Both, the SNE and MiAmbiente have been instrumental to coordinate and amplify the discussion on carbon pricing instruments and a voluntary carbon market with different stakeholders. The involvement of the Ministry of Finance in consultations and workshops has been also key to move forward this agenda.

### Important changes in the technical design or approach related to the Grant’s activities:

**Developments:** Through the engagement with the PMR, the GoPN has been increasing its technical capacity on carbon pricing instruments, MRV design, and domestic carbon market topics. As a result, there have been some minor changes in relation with the initial vision. In addition, COVID19 has affected the delivery of a task that will be executed under PMI. Changes are summarized below:

- Due to COVID19, and after consultation with the GoPN, Task 3.2 (*Raise Social Awareness and Design a Communication Plan*) will not be executed under this Grant. The GoPN expects to include this activity as part of Panama’s PMI request.
- The design of the MRV system will go beyond the energy sector, as initially expected.
- As requested by MiAmbiente, and as part of the domestic carbon market assessment, a consultancy will identify and analyze pathways for the integration of forestry actions in a voluntary market, which was not considered in the initial proposal.

### Key capacity issues (implementation, technical, financial management, procurement) related to the Grant’s activities:

**Developments:**

The main challenge the country continues to face is the lack of capacity (manpower) within governments agencies to lead on these efforts. Through the PMR, two local consultants have been hired to support Panama’s climate efforts and better coordinate among stakeholders and existing programs. To increase the technical capacity of different government agencies, MiAmbiente has the intention to develop an in-house manual on carbon pricing for government officials. Capacity building and a communications strategy remain a challenge and will require additional financial capacity.

### Coordination with other carbon pricing initiatives, including those funded by other donors:

**Developments:**
There are a variety of programs, projects and initiatives that relate directly or indirectly to climate change mitigation and adaptation initiatives which are being carried out by various agencies. Coordination with these activities is of paramount importance to ensure consistency and avoid duplication of efforts and activities, and to maximize synergies. Nonetheless, the SNE and MiAMBIENTE, and the local consultants hire under the south-south program, have been able to coordinate these efforts efficiently. Below, a list of key initiatives:

- CIACA: RTH National Program
- CBIT
- OLADE: Energy Information System (SIE, Sistema de información Energética)
- Alianzas Programas GEI LAC
- Club de Carbono de América Latina

**Lessons learned:**

- The importance of informal contact and coordination as a way to reduce the complexity of engagements has proven very valuable. It is sometimes easier to call directly than to go through formal channels.
- Having a clear technical understanding of the desired outcomes is fundamental to have clear roles and responsibilities and avoiding overlap.

**Stakeholder engagement related to the Grant’s activities:**

**Developments:**

Several Ministries have been involved and participated in consultation activities, including the Ministry of Environment, National Secretary of Energy, Ministry of Finance and Economy, and Ministry of Health, as well the Land Transit and Transport Authority and representatives of the private sector, among others.

**Lessons learned:** The coordination with different stakeholders is challenging and involves many actors since this activity is envisioned to have a cross-sectoral impact. However, ensuring a high level of engagement with all the stakeholders has been instrumental to move forward the implementation of the Grant’s activities.

**Other issues related to the Grant’s activities**

The presidential elections that took place in May 2019 caused some implementation delays in 2019. The COVID19 pandemic caused some delays and created some constraints in 2020.

### 3. ADDITIONAL INFORMATION

_In this Section, please provide any additional information that may be relevant for the achievement of the Grant’s objectives and/or the implementation of the Grant’s activities. Please_
also provide any relevant information related to carbon pricing and the use of market-based instruments for climate change mitigation.

Panama has expressed its intention to apply to PMI funding to implement different elements developed under the PMR, such as MRV system and its operational capacity, carbon pricing instruments, and the design of a communications strategy.