



Short Procedure

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To: The Donors Committee
From: The Secretary
Subject: Panama. Nonreimbursable technical-cooperation funding for the comprehensive review of the regulatory framework and policies of the energy sector

Basic Information:

Executing agency	Ministerio de Economía y Finanzas through the Comisión de Política Energética (COPE)
Amount	up to US\$498,800, or its equivalent
Source	Technical Cooperation Facility

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Remarks: The Representatives are requested to inform the Secretary, in writing, not later than **16 February 2006**, if they wish to interrupt this procedure. If no such communication is received by that date, the resolution will be considered adopted by the Donors Committee, and a record to that effect will be made in the minutes of a forthcoming meeting.

Other distribution: IDB Representative in Panama

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PANAMA

**COMPREHENSIVE REVIEW OF THE REGULATORY FRAMEWORK
AND POLICIES OF THE ENERGY SECTOR**

(PN-M1002)

DONORS MEMORANDUM

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Proposed resolution

INFORMATION AVAILABLE IN THE RE2/FI2 AND COF/CPN FILES

PREPARATION:

- Law 8 of 16 June 1987, regulating hydrocarbon-related activities
- Law 26 of 29 January 1996, creating the Public Utilities Regulatory Agency
- Law 36 of 17 May 1996, establishing controls to prevent environmental pollution caused by fuels and lead
- Law 6 of 3 February 1997, establishing the regulatory and institutional framework for providing public electric power service
- Law 41 of 1 July 1998, General law on the environment of the Republic of Panama
- Law 15 of 9 February 2001, establishing regulations for subsidizing basic or subsistence consumption by consumers of public electric power services, and other provisions
- Law 37 of 10 July 2001, establishing protective regulations for retirees and pensioners, and other provisions
- Law 45 of 4 August 2004, establishing an incentive program to promote hydroelectric power generation systems and other new, renewable, and clean energy sources, and other provisions

EXECUTION:

Annex IV	MIF Project Performance Monitoring Report
Annex V	Draft Terms of Reference

ABBREVIATIONS

CESI	Committee on Environment and Social Impact
CND	Centro Nacional de Despacho [National Distribution Center] of Empresa de Transmisión Eléctrica, S.A.
COPE	Comisión de Política Energética [Energy Policy Commission]
ERSP	Ente Regulador de los Servicios Públicos [Public Utilities Regulatory Agency]
MEF	Ministry of the Economy and Finance
MICI	Ministry of Trade and Industry
PEN	National Energy Plan
UNDP	United Nations Development Programme

COMPREHENSIVE REVIEW OF THE REGULATORY FRAMEWORK AND POLICIES OF THE ENERGY SECTOR

(PN-M1002)

I. EXECUTIVE SUMMARY

Executing agency:	Ministry of the Economy and Finance (MEF), through the Comisión de Política Energética [Energy Policy Commission] (COPE)	
Beneficiaries:	MEF through COPE	
Amount and source:	MIF (Facility I):	US\$498,800
	Local counterpart funding:	<u>US\$217,200</u>
	Total:	US\$716,000
Objective:	To support the authorities in performing a comprehensive review of the energy sector's regulatory framework and policies in order to help adequately supply the country's energy needs by diversifying energy sources and increasing the efficiency, reliability, and rational, environmentally sustainable use of natural resources.	
Description:	The project will support execution of the following components: (i) comprehensive diagnostic assessment of the energy policy and its regulatory framework; (ii) consultation and proposal for reforms to the electricity sector's regulatory framework; (iii) National Energy Plan 2006–2021; and (iv) strengthening of COPE.	
Terms:	Execution period:	18 months
	Disbursement period:	24 months
Environmental and social review:	The Committee on Environment and Social Impact reviewed the project on 17 June 2005 (meeting 24-05). Its comments on the energy plan consultations were incorporated into this document.	
Coordination with other international agencies:	Not applicable.	

**Special
contractual
conditions:**

The following are conditions precedent to the first disbursement: (a) appointment of the project coordinator; and (b) signing of an agreement with the United Nations Development Programme (UNDP) to provide administrative support to COPE in procuring goods and services, hiring consultants, and processing payments for them under the terms agreed with the Bank.

**Exceptions to
Bank policy:**

None.

II. BACKGROUND

- 2.1 On 21 March 2005, the Government of Panama, through the Office of the Vice Minister of Economy of the Ministry of the Economy and Finance (MEF), requested nonreimbursable technical-cooperation support from the Bank to enable it to perform a comprehensive review and propose reforms to its energy sector policies and regulatory frameworks.
- 2.2 The Comisión de Política Energética [Energy Policy Commission] (COPE), an agency of the MEF, was created by Law 6 of 3 February 1997, which dictates the regulatory and institutional framework for providing public electric power service. The Commission's objectives are to formulate, plan, and establish energy sector policies, ensure compliance therewith, advise the Executive Branch on matters within its sphere of competence, and propose the necessary legislation for energy policies to be sufficiently effective.
- 2.3 Law 8 of 16 June 1987, regulating hydrocarbon-related activities governs the Republic of Panama's oil industry and provides tax incentives and other benefits to companies that invest in this type of activity in the country. It contains general regulations on the purpose and scope of the Law and assigns responsibility to the Ministry of Trade and Industry (MICI) for formulating and promoting the National Hydrocarbon Policy.
- 2.4 This technical-cooperation project will be executed and coordinated through COPE, which is responsible for developing energy policy and related plans. The direct beneficiaries will be the agencies associated with each subsector, particularly those with regulatory powers: the Ente Regulador de los Servicios Públicos [Public Utilities Regulatory Agency] (ERSP) and the Dirección General de Hidrocarburos [Directorate General of Hydrocarbons] (DGH) <http://www.mici.gob.pa/secenef.html> of the MICI. Specifically, COPE's functions include preparation of the National Energy Plan, which describes the instruments needed to achieve the goals and objectives of the national energy policy.
- 2.5 A loan from the World Bank to support the then recent creation of COPE made it possible for the Commission to implement the first instruments to respond to some of the energy policy guidelines described in Article 2 of Law 6 of 3 February 1997. Studies to identify hydroelectric and geothermal potential and to predict energy supply and demand guided COPE in developing the first of those instruments, including Law 45 of 2004 (which establishes an incentive program to promote hydroelectric power generation and other renewable energy sources), COPE resolutions issuing criteria for the Plan to Expand the National Interconnected System prepared by Empresa de Transmisión Eléctrica, S.A. (ETESA), and Cabinet Resolution 5 of 28 January 2004 establishing the Rate Stabilization Fund to mitigate the impact of high oil prices on consumers, among others.

- 2.6 Initial reforms in the electricity sector derived from Law 6 of 1997, which took effect in 1999, had great initial success, attracting new investments of US\$800 million in the sector's three segments. Recently, as a result of support instruments to promote renewable energy sources, various concessions have been granted by the Public Utilities Regulatory Agency, for a total of 359 megawatts in hydroelectric plants and 98 megawatts in wind plants. An additional 114.9 megawatts is expected from hydroelectric projects to come on line in 2007-2008, largely in the province of Chiriquí.
- 2.7 In spite of the positive developments mentioned above, significant future electricity needs have been identified that exceed the levels and pace of investment observed during the first years of the reforms. By 2019, an additional generating capacity of 1,522 megawatts and 1,810 megawatts will be necessary for moderate- and high-demand growth scenarios, respectively. In both cases, this represents double the current installed capacity in all of Panama. This is one of the first indicators highlighting the need for broader private sector participation.
- 2.8 The high prices of oil-based fuels have an increasingly significant impact on the electricity sector. This problem becomes more pronounced given the growing presence of thermal power generation in the sector's energy matrix, which has risen from 38% of an installed capacity of 892 megawatts in 1990, to 46% of an installed capacity of 1,555 megawatts at the end of 2003. Bunker fuel and fuel oil are also increasingly being used in the electricity sector, currently accounting for 26.55% of total consumption of oil derivatives in the country, surpassed only by the transportation sector—a major consumer accounting for 57.5% of oil derivative use. Thus new electric power generation alternatives and new fuels for consumption in other sectors need to be introduced. Any future reduction in the impact of oil prices will depend on how successfully alternative fuels are introduced and what measures are designed for rational and efficient energy use.
- 2.9 While the reforms and initial policy instruments bore some fruits for the electricity sector in attracting private sector investment, certain factors, such as those mentioned above, suggest a growing need for complementary energy policy decisions, specifically: (i) energy contracts between power generators and distributors, i.e. Empresa de Distribución Eléctrica Metro-Oeste, S.A. (EDEMET), Empresa de Distribución Eléctrica Chiriquí, S.A. (EDECHI), and Elektra Noreste, S.A. (ELEKTRA) that privatized the sector in 1999 have expired, leaving the regulatory framework without an organized procedure for guaranteeing new supply under competitive conditions; (ii) although Panama has some oil storage capacity for its Canal activities, the recent sustained period of high oil prices (US\$35-US\$69/WTI barrel) has had an unprecedented impact on energy prices, and control over the impacts of prices is limited to making decisions to promote fuel diversification in the electric power sector and energy efficiency; and (iii) as a short-term emergency measure, the government established a Rate Stabilization Fund costing the State US\$51 million, which has absorbed a significant portion of

price increases in the wholesale electricity market. This measure will require constant attention, and policies should be defined for better control and to adequately channel resources from the Fund to the most unprotected consumption sectors. A transition strategy also needs to be established.

- 2.10 Accordingly, COPE drew up an overview in the National Energy Plan (PEN) 2005-2020, which laid out general objectives and certain lines of action, but did not discuss specific and comprehensive long- and short-term strategies to resolve the sector's challenges in supply, diversification in the basket of fuels, and promotion of energy efficiency and savings. COPE should use the National Energy Plan (PEN) 2006-2021 as a means to issue policy instruments that foster an enabling environment for greater involvement by the private sector in meeting the investment needs of the electricity sector, as well as additional instruments to diversify the energy matrix and promote energy efficiency and savings.

III. BASIC COMPONENTS AND OBJECTIVES

- 3.1 The general objective of this technical-cooperation project¹ is to support the authorities in performing a comprehensive review of the energy sector's regulatory framework and policies in order to help adequately supply the country's energy needs by diversifying energy sources and increasing the efficiency, reliability, and rational, environmentally sustainable use of natural resources.
- 3.2 **Component I. Comprehensive diagnostic assessment of the energy policy and its regulatory framework** (MIF US\$98,000; Counterpart US\$42,000). This component would support the Energy Policy Commission (COPE) in performing a comprehensive diagnostic assessment of the energy sector's policies and its regulatory and institutional framework to help set priorities and recommend more detailed future actions to optimize the sector's operations. The diagnostic assessment includes energy supply and consumption activities, rate policies, and a social dimension, and is not limited to the electricity sector. To the extent possible, it will utilize available information and will propose policy alternatives, taking into consideration the current international environment as well as various future development scenarios. The diagnostic assessment will be based on studies performed by COPE and on the Sistema Nacional de Información y Documentación Energética [National Energy Information and Documentation System] (SNIDE), and will conclude with a preliminary proposal for the National Energy Plan 2006-2021, with the following five core objectives:

¹ This technical-cooperation project was prepared for approval as part of the Line of Activity to Consolidate Sector Reforms and Legal, Regulatory, and Institutional Frameworks in Infrastructure Sectors in Group C and D Countries (document MIF/AT-69). Given that the period for committing funds under that line ended on 27 November 2004, Management is presenting the operation to the Donors Committee as a regular project.

1. Promote the development of renewable energy sources under the guidelines of international conventions and treaties.
 2. Increase the coverage of domestic energy services.
 3. Promote regional energy integration with Central America–Central American Electric Interconnection System (SIEPAC) under the Puebla-Panama Plan—and with Colombia (Andean Pact).
 4. Promote energy savings and efficient, rational energy use.
 5. Support viable alternatives that allow for a diversified, low-cost energy basket.
- 3.3 In order to achieve each of the above objectives, there is a Strategic Plan establishing the short-, medium-, and long-term goals based on studies completed by COPE and developments in the national and international energy environment. The diagnostic assessment should consider environmental legislation affecting the energy sector and, where appropriate, should propose relevant recommendations to the corresponding sector head. This is particularly true in the case of issues related to renewable and standard energy sources to reduce emissions of contaminants from fuels used in the sector.
- 3.4 The diagnostic assessment will identify specific needs that have not been addressed by existing policy instruments. Among the issues that could require more far-reaching measures and on which the initial diagnostic assessment should make decisions are diversification of fuels such as ethanol and natural gas, and energy efficiency programs in the public and private sectors. In both areas, special attention should be given to defining schemes and strategies for partnerships and expansion of private sector participation to achieve the objectives and attract the necessary future investments identified by the assessment. With respect to fuel diversification, the feasibility of the potential introduction of new fuels by the different public and private sectors (agriculture, automotive, hydrocarbons) in the chain needs to be evaluated. Efficiency programs and related technological standardization initiatives to realize the potential energy savings identified by COPE for the public and private sectors should also be defined.
- 3.5 Once the review has been performed and the results obtained from any specific studies required, those findings will be used to frame a preliminary proposal for the National Energy Plan, spelling out the strategies for achieving the plan's objectives. The plan will then be evaluated and consultations made, as described in another component.
- 3.6 **Component II. Evaluation, consultation, and proposal for reforms to the electricity sector's regulatory framework.** (MIF US\$61,200; Counterpart US\$33,800). This component would support extensive consultations with various

public and private participants in the electric power sector to identify regulatory barriers that could be limiting broader private participation in the sector's development. In particular, aspects related to the guarantee of long-term supply in the Panamanian market will be reviewed, including the current framework for long-term contracts and related components in the market. This component will include interaction with the Grupo de Vigilancia del Mercado Eléctrico Panameño [Oversight Group for the Panamanian Electricity Market], which was created under the Panamanian Wholesale Market Rules and is comprised of international experts, as well as the quarterly reports prepared by the Group to date. The component is to conclude with a precise diagnostic assessment and proposals for legal, regulatory, or market-design reforms to resolve aspects of the current market design that are preventing the expansion of supply by the private sector. This sector is to be consulted, in particular, regarding the perceived barriers with respect to regulation of transmission, distribution, operation, and design of the wholesale market, and the nature of the forms of contracting.

- 3.7 Before producing the final proposals for reforms to laws, regulations, or resolutions, the proposals are to be submitted for consultation with stakeholders in the different segments of the electric power sector and regulatory authorities. The revamped proposals resulting from this extensive consultation process will be used by COPE once the approvals required by COPE or other entities have been obtained.
- 3.8 **Component III. National Energy Plan 2006-2021.** (MIF US\$217,600; Counterpart US\$102,400). Based on the groundwork done by COPE and the preliminary proposal for the National Energy Plan, as well as the results of specific studies on fuel diversification and energy efficiency and savings, consultation meetings are to be held on the plan with those directly involved in the energy sector and members of civil society, in order to hear and respond to their concerns and needs, which could ultimately be incorporated into the objectives of the National Energy Plan. The outcomes of the National Energy Plan forum sponsored by the National Assembly in August 2005 and the Electricity Supply Coverage forum held in September 2005 with the support of the Inter-American Council of Commerce and Production (IACCP) will also be considered. Both forums culminated with working groups and recommendations, and were attended by market representatives and public and private sector institutions. A balance will be sought to obtain feedback from the different sectors without generating a climate of uncertainty in the sector. Based on the results of the consultation process, the final National Energy Plan (PEN) 2006-2021 will be prepared and distributed electronically and in hard copy. Thus, the PEN 2006-2021 will be the means of disseminating the results of the diagnostic assessment and proposals for reforms to the energy sector's policies and regulatory framework that have not been evaluated in any prior plan and will be necessary to achieve an efficient, diversified, and sustainable supply of energy in the long term within a framework of respect for the environment and incentives for rational, efficient energy use.

- 3.9 **Component IV. Strengthening of COPE.** (MIF US\$56,000; Counterpart US\$24,000). In order to give COPE the specialized tools required for its functions, this component is aimed at providing updated software for planning and simulating the medium- and long-term operation of electricity systems using thermal and hydroelectric power generation. As the entity responsible for issuing criteria for electricity sector planning, it is critical for COPE to have such tools. Acquisition of these tools will be tied to a high-level technical training program that must be given to COPE's technical personnel by the vendor. Technical personnel must be capable of understanding planning methodologies, formulating case studies, interpreting results, and determining results specific to Panama's electricity sector. As part of this component, it is essential for COPE to be equipped with the computer hardware and peripherals necessary to run these planning tools.
- 3.10 The efficient and sustainable development of the energy sector is critical to the development and growth of the economy, and the increase in competition in the national energy market should result in better supply conditions in terms of quality and price, making domestic industry competitive. Accordingly, the technical-cooperation project is consistent with the Bank's country strategy (documents GN-2136-1 and GN-2251-3), particularly the pillars on: (i) sustainable growth, and (ii) promotion of reforms for competitiveness and growth.

IV. COST AND FINANCING

- 4.1 This nonreimbursable technical-cooperation project will have a budget of US\$716,000, which includes the MIF contribution of US\$498,800 and a local counterpart contribution in cash of US\$116,100 and in kind of US\$101,100, as shown in the following table. The execution and disbursement periods for the operation will be 18 and 24 months, respectively, including the term for disbursing funds to pay for the external audit to be conducted 90 days after the beginning of month 13. The itemized budget is presented in Annex II.

Cost Table (thousands of U.S. dollars)					
Description	TOTAL	MIF	COPE Local contribution		
			Cash	In kind	Subtotal
1. Comprehensive diagnostic assessment of the energy policy and its regulatory framework	140.00	98.00	21.00	21.00	42.0
24.0	24.0	16.8	3.6	3.6	7.2
1.1 Review of available information and studies	72.0	50.4	10.8	10.8	21.6
1.2 Specific additional studies	20.0	14.0	3.0	3.0	6.0
1.3 Strategy analysis	24.0	16.8	3.6	3.6	7.2
1.4 Preliminary proposal for the National Energy Plan					
2. Evaluation, consultation, and proposal for reforms to the electricity sector's regulatory framework	95.0	61.2	16.9	16.9	33.8
53.0	53.0	31.8	10.6	10.6	21.2
2.1 Consultation with stakeholders in the electricity sector	22.0	15.4	3.3	3.3	6.6
2.2 Diagnostic assessment	20.0	14.0	3.0	3.0	6.0
2.3 Proposal for regulatory reforms					
3. National Energy Plan 2006-2021	320.0	217.6	51.2	51.2	102.4
69.0	69.0	38.4	12.8	12.8	25.6
3.1 Consultations on the proposed National Energy Plan	84.0	58.8	12.6	12.6	25.2
3.2 Preparation of the final National Energy Plan	51.0	35.7	7.7	7.7	15.3
3.3 Dissemination	121.0	84.7	18.2	18.2	36.3
3.4 Final program report					
4. Strengthening of COPE	80.0	56.0	12.0	12.0	24.0
40.0	40.0	28.0	6.0	6.0	12.0
4.1 Specialized software	40.0	28.0	6.0	6.0	12.0
4.2 Related equipment					
Program coordinator	42.0	42.0			
UNDP administration (3%)	15.0		15.0		15.0
Evaluation	12.0	12.0			
Audit	12.0	12.0			
Total	716.0	498.8	116.1	101.1	217.2
	100.0%	69.7%	16.2%	14.1%	30.3%

V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 The Ministry of the Economy and Finance (MEF) will be the executing agency for this project, under the direction of the Executive Director of the Energy Policy Commission (COPE). The Executive Director will be responsible for: (i) ensuring fulfillment of the entire technical-cooperation program; (ii) making final decisions with respect to the guidance, conclusions, and recommendations of consultants; (iii) acting as the primary liaison with other government entities, sector stakeholders, civil society, and the legislature; and (iv) liaising with the Bank.
- 5.2 As part of the technical-cooperation program, a General Program Coordinator will be responsible for: (i) coordination and technical supervision of all consultants and consulting firms who are assigned tasks as part of project activities;

- (ii) coordination of consultants, COPE staff, and COPE's Executive Director for purposes of maintaining a constant flow of information and ongoing work reviews; (iii) preparation of periodic progress reports for the Bank, which should include semiannual reports (as of 30 June and 31 December of each year) of funds allocated and disbursed (for MIF payments as well as the payments in cash and in kind) for this project; and (iv) processing disbursement requests and the corresponding expense vouchers, per the Bank's disbursement procedures.
- 5.3 COPE will manage an independent budget for the program and will keep accounting records for separate control and management of program resources. For such purposes, the United Nations Development Programme (UNDP) will be contracted as administrator of the cooperation funds. Through the UNDP, COPE will be in charge of administrative implementation of the project, selection of consultants, and contractual and administrative decisions.
- 5.4 The MEF will open two separate bank accounts in Banco Nacional de Panamá, one for the MIF contribution and one for local counterpart funds, which will be used specifically for this MIF project. Funds will be disbursed through payments by the UNDP to consultants and vendors based on the schedule of periodic payments previously agreed in the respective contracts and with prior Bank approval.
- 5.5 **Accounting.** The MEF will establish and maintain adequate accounting, finance, and internal control systems that make it possible to trace the origin and use of program funds, pursuant to the Bank's policies. The accounting system will be structured to provide the necessary documentation, allow transactions to be verified, and facilitate timely preparation of financial statements and reports. COPE will keep project records that: (i) identify the sums of money received from different sources; (ii) report project outlays using the chart of accounts previously approved by the Bank, separating MIF contributions from counterpart contributions; and (iii) include the necessary details to identify the services engaged and how they were used.
- 5.6 **Financial audits.** Within 90 days of completion of the project execution period, and before the term for the last disbursement, the MEF will prepare the final financial statements for the project and submit them to the Bank. They will be audited by an independent external auditor that is deemed acceptable by the Bank and is contracted under terms of reference previously approved by the Bank. The cost of the audit will be financed out of the MIF contribution.
- 5.7 **Administration and procurement.** COPE will engage the UNDP to administer the project's resources, hire the consultants needed for the project, and handle the procurement of goods. A condition precedent to the first disbursement will be the signing of an agreement with the UNDP under the terms agreed by the UNDP and the Bank. The cost of the UNDP's services will be financed with the counterpart contribution in cash. Procurement of goods and the selection and contracting of

consultants are to be consistent with the Bank's policies for the procurement of goods and services and the selection and contracting of consultants set out in documents GN-2349-4 and GN-2350-4, respectively.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** The Energy Policy Commission (COPE) will prepare and submit progress reports on the project to the Bank's Country Office in Panama within 30 days following the end of each six-month period, and a final report within 30 days following the date of the last scheduled disbursement, not including funds to be disbursed to pay for the audit. Those reports will follow a format for project monitoring that the Bank will deliver to COPE, and will address the project's activities and finances, as well as the outcomes measured in terms of the indicators and benchmark parameters identified in the project's logical framework, found in Annex I. The Bank will use the reports to monitor progress in implementing the project, and to prepare the project completion report within three months after completion of the execution period. The Bank's Country Office in Panama will supervise the project, in collaboration with the project team.
- 6.2 **Evaluation.** The Bank will hire consultants to conduct two project evaluations: a midterm and a final evaluation. The midterm evaluation will be performed when 50% of the MIF's contribution has been disbursed. The purpose of this review will be to determine if the project's objectives are being attained, identify achievements and problems arising in project execution, incorporate lessons learned, and suggest any necessary adjustments to the project. On the basis of the midterm evaluation, the Bank's Country Office, assisted by the project team, will decide whether the project should proceed, be suspended, or be cancelled. During project execution, COPE will compile the project's monitoring and evaluation indicators. Those indicators are presented in the logical framework in Annex I and will be used by the Bank's Country Office and the executing agency to measure the overall impact of the project and to evaluate its outcomes. The initial parameters may be revised by COPE, with the Bank's approval, within three months following the entry into force of the contract, to more accurately reflect actual conditions and better monitor and evaluate the project.
- 6.3 The final evaluation will be performed within three months following conclusion of project execution, in order to evaluate the outcomes and measure attainment of the targets set out in the logical framework.

VII. BENEFITS AND RISKS

- 7.1 The project will help define the national energy policy and create specific objectives and plans that will all be embodied in the National Energy Plan. In

particular, it is hoped that the project will achieve the expansion of supply and diversification in the energy basket by the private sector in Panama's energy market. Specifically, these activities will promote security in long-term energy supply, at competitive prices and under quality conditions. The sustainable development of renewable energy sources and the coverage of those services must be promoted through broader private sector participation.

- 7.2 The Energy Policy Commission (COPE) will be strengthened by providing it with the instruments and technical capacities necessary to better perform its assigned functions. Although COPE is not a new entity, it still requires extensive strengthening to effectively carry out its mandates, particularly to issue and constantly update the National Energy Plans. Related entities in the sector, such as the Public Utilities Regulatory Agency (ERSP), Empresa de Transmisión Eléctrica, S.A. (ETESA), and the Ministry of Trade and Industry (MICI), which are responsible for regulation and other aspects of national energy policy, will also benefit directly or indirectly. Although members of civil society and stakeholders who are directly involved will be consulted extensively regarding the energy plans, there is always the risk that the potential reforms recommended at the regulatory and legal levels will be changed or modified or, in an extreme case, not approved under the corresponding legislative processes.

VIII. ENVIRONMENTAL AND SOCIAL FEASIBILITY

- 8.1 The project has no direct environmental or social impacts. The Committee on Environment and Social Impact (CESI) reviewed the project profile on 17 June 2005 (meeting 24-05). Comments were only received regarding the inclusion of different social groups in consultation meetings on the National Energy Plan.
- 8.2 This memorandum has followed the recommendations made by CESI on expanding the scope of consultation meetings to be held for the electricity sector diagnostic assessment and the National Energy Plan as a whole. Specific consultation forums will be held with the public to discuss its concerns and develop plans that have been influenced by society's different stakeholders.

COMPREHENSIVE REVIEW OF THE REGULATORY FRAMEWORK AND POLICIES OF THE ENERGY SECTOR
LOGICAL FRAMEWORK
(PN-M1002)

Objective	Indicators	Means of verification	Assumptions
Goal			
To foster the efficiency, quality, and reliability of the country's energy supply through the sustainable development of its natural resources, while increasing service coverage, promoting rational and efficient resource use, and protecting the environment.	<p>By one year after conclusion of the project:</p> <ul style="list-style-type: none"> • Legal or regulatory reforms to the institutional and regulatory framework for providing public electric power service have been approved (i.e. Law 6 and the regulations thereto). • The required reforms to operating, transmission, and commercial regulations in the electricity market are issued. • New regulatory instruments are issued to promote standardization for greater efficiency. • New regulatory instruments are issued to introduce new fuels in the energy sector. <p>By five years after implementation of the policy and regulatory recommendations:</p> <ul style="list-style-type: none"> • Increase in energy supply: By 2012, not less than 1,200 megawatts; by 2015, not less than 1,300 megawatts. • No rationing recorded in the electricity sector. 	<ul style="list-style-type: none"> • Documents or parliamentary gazettes. • Information bulletins from the Comisión de Política Energética [Energy Policy Commission] (COPE) and the Centro Nacional de Despacho [National Distribution Center] (CND). • Annual reports from the Ministry of the Economy and Finance (MEF) with statistics on the energy sector as a whole. • Annual reports from COPE on development of the power generation park and demand projections, and containing statistics on the results of savings programs implemented. • Reports from the Ente Regulador de los Servicios Públicos [Public Utilities Regulatory Agency] (ERSP) indicating coverage rates and service quality. • Annual reports from the CND on demand behavior, reductions in peak demand, and availability rates. 	<ul style="list-style-type: none"> • Market strategy in the energy sector is maintained. • No significant macroeconomic crises; economic growth expectations are maintained. • Political support and consensus on development needs in the energy sector are maintained. • The primary or secondary legislative reforms recommended through this cooperation project are approved.

Objective	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> • Diversification of energy sources: By 2012, share of thermal power generation reduced from 34% to 30%; by 2015, share of thermal power generation reduced by an additional five percentage points. • Energy savings: By 2012, the public sector documents savings of 10% in electricity consumption; private sector, 15%. By 2015, cumulative savings are documented that are at least equal to the previous period. 		
Purpose			
Support COPE with specialized work, technical capacity, tools, and equipment, so that it has the technical inputs to produce the National Energy Plan, which will include specific strategies to achieve the objectives set out in the energy policy.	<p>By two months after conclusion of the project:</p> <ul style="list-style-type: none"> • Acquisition of tools and equipment for energy planning: Mathematical models and computation tools are operating flawlessly. • Increase in COPE's technical capacities: Expansion plans are generated with models acquired. 	<ul style="list-style-type: none"> • The National Energy Plan is produced. • Specific strategies are identified to resolve different challenges faced by the sector. • A reliable regulatory reform package is proposed for the electricity sector. • COPE staff are directly involved in developing the National Energy Plan. 	<ul style="list-style-type: none"> • The government and legislature support necessary regulatory reforms. • The government supports the National Energy Plan proposed by COPE. • Stakeholders and members of civil society are enthusiastic participants in the process. • Progress is made in parallel integration processes (Central American Electric Interconnection System).

Objective	Indicators	Means of verification	Assumptions
Components			
1. Comprehensive diagnostic assessment of the energy policy and its regulatory framework 1.1 Review of available information and studies 1.2 Specific additional studies 1.3 Strategy analysis 1.4 Preliminary proposal for the National Energy Plan	Six months into the project: <ul style="list-style-type: none"> Objectives and strategies of the National Energy Policy are enumerated. The specific aspects that must be addressed to diversify and boost energy supply are identified. 	<ul style="list-style-type: none"> Document that describes prior work by COPE and identifies specific needs. Final work reports on specific issues identified, such as energy efficiency, fuel diversification, and the feasibility of ethanol. Preliminary National Energy Plan. 	<ul style="list-style-type: none"> The MEF obtains all the support required by COPE in time to launch the project. COPE staff work with the consultants through the project coordinator.
2. Evaluation, consultation, and proposal for reforms to the electricity sector's regulatory framework 2.1 Consultation with sector stakeholders 2.2 Diagnostic assessment 2.3 Proposal for regulatory reform	Ten months into the project: <ul style="list-style-type: none"> The sector's stakeholders issue comments. List of aspects to consider is derived from a cross-analysis of consultation meetings with stakeholders. List of aspects that require reform in the electricity sector's regulatory framework. Detailed list of necessary regulatory reforms in the electricity sector's framework. Outcomes of forums held by the National Assembly and the private sector. Inter-American Council of Commerce and Production. 	<ul style="list-style-type: none"> Report on consultations with stakeholders describing the main concerns by segment: power generation, transmission, and distribution. Report with diagnostic assessment that makes it possible to identify the market mechanisms or regulatory aspects that are preventing better competitive expansion of supply in the market. Report that contains a specific proposal for all regulatory reforms that could be necessary in the sector (from the legislative to the regulatory level, or other lower-ranking instruments). 	<ul style="list-style-type: none"> Stakeholders in the energy sector cooperate with the authorities. There are no major barriers to discussing problems in the electricity sector. The ERSP provides full support to COPE in terms of information and dialogue with the sector's stakeholders. COPE has the necessary tools and equipment. The government and legislature approve the outcomes of possible regulatory reforms.

Objective	Indicators	Means of verification	Assumptions
3. National Energy Plan 2006-2021 3.1 Consultations on the proposed National Energy Plan 3.2 Preparation of final National Energy Plan 3.3 Dissemination 3.4 Final program report	Ten months into the project: <ul style="list-style-type: none"> Comments and observations are received from at least all segments of the energy sector and representative groups from civil society. An objective response is given to consultations and they are appropriately incorporated when applicable in preparation of the National Energy Plan. All government agencies are informed of the updated National Energy Plan through print or electronic media. A report or informational brochure on the National Energy Plan is delivered to all sectors participating in the consultation meetings. 	<ul style="list-style-type: none"> Completion reports on consultation meetings with representatives from the sector and civil society. Reports from experts who participate in the consultation meetings on the proposed National Energy Plan. Final brochures and copies of the National Energy Plan distributed to the sector's different agencies and civil society to disseminate the updated National Energy Plan. Final report containing all program activities. 	<ul style="list-style-type: none"> Calls to participate in consultation meetings are successful, and representatives from the sector and civil society respond positively. There is a cordial and focused dialogue on the energy issue. Consultation meetings do not elicit a negative response from interest groups that could stall execution of the plan.
4. Strengthening of COPE 4.1 Specialized software 4.2 Related equipment	Upon completion of the project: <ul style="list-style-type: none"> The software vendor makes at least one installation and training visit. At least three planning scenarios are developed for Panama's electricity sector. 	<ul style="list-style-type: none"> Specialized models are installed and tested with equipment on site. COPE staff develop planning scenarios with the models acquired. Report with scenarios analyzed that are incorporated into the National Energy Plan. 	<ul style="list-style-type: none"> There are no significant price variations in the specialized tools market. There are no significant barriers to importing specialized equipment and software. COPE staff are trained to use the models acquired.
Activities			
Calls for proposals, contracting of consultants and software vendors, and consultation meetings.	On-time attainment of targets per the timeline of activities and detailed costs for the program shown in Annex II.	<ul style="list-style-type: none"> Final program report Program audit 	<ul style="list-style-type: none"> Acceptable bids are received for consultants, software, equipment, organization of consultation meetings, and dissemination materials.

	Consulting assignments (thousands of US\$)						Equipment, materials, and services	Total	MIF	Local contribution		
	Local consultant	Consultant A: Coord.	Con. B	Con. C	Con. D	Con. E			Total ~70%	Cash ~15%	In kind ~15%	Subtotal ~30%
1. Comprehensive diagnostic assessment of the energy policy and its regulatory framework								140.0	98.0	21.0	21.0	42.0
1.1 Review of available information and studies	6	10					8	24.0	16.8	3.6	3.6	7.2
1.2 Specific additional studies			18	16	16	16	6	72.0	50.4	10.8	10.8	21.6
1.3 Strategy analysis	6	8					6	20.0	14.0	3.0	3.0	6.0
1.4 Preliminary proposal for the National Energy Plan	6	10					8	24.0	16.8	3.6	3.6	7.2
2. Evaluation, consultation, and proposal for reforms to the electricity sector's regulatory framework								95.0	61.2	16.9	16.9	33.8
2.1 Consultation with stakeholders	8	10					35	53.0	31.8	10.6	10.6	21.2
2.2 Diagnostic assessment	6	10					6	22.0	15.4	3.3	3.3	6.6
2.3 Recommendations for reforms to electricity sector regulations	6	8					6	20.0	14.0	3.0	3.0	6.0
3. Updating the National Energy Plan 2006-2021								320.0	217.6	51.2	51.2	102.4
3.1 Consultations on the proposed National Energy Plan	6	8					50	64.0	38.4	12.8	12.8	25.6
3.2 Preparation of the National Energy Plan 2006-2021	6	8	18	14	14	14	10	84.0	58.8	12.6	12.6	25.2
3.3 Dissemination	6	10					35	51.0	35.7	7.7	7.7	15.3
3.4 Final program report	6	12	20	16	16	16	35	121.0	84.7	18.2	18.2	36.3
4. Strengthening of COPE								80.0	56.0	12.0	12.0	24.0
4.1 Specialized planning software							40	40.0	28.0	6.0	6.0	12.0
4.2 Related equipment							40	40.0	28.0	6.0	6.0	12.0
Program coordinator								42.0	42.0	0.0	0.0	0.0
UNDP administration (3%)								15.0	0.0	15.0	0.0	15.0
MIF evaluation								12.0	12.0	0.0	0.0	0.0
MIF audit								12.0	12.0	0.0	0.0	0.0
◀ Totals	62	94	56	46	46	46	285	716.0	498.8	116.1	101.1	217.2
◀ %								100.0	69.7	16.2	14.1	30.3

Notes:

Local consultant: Counterpart and local liaison

Consultant A: Specialist in electricity markets and coordinator of the consulting assignment

Consultant B: Specialist in electricity markets with an emphasis on the Expansion Plan

Consultant C: Specialist in rational and efficient energy use

Consultant D: Specialist in fuel- and hydrocarbon-based energies

Consultant E: Specialist in renewable energies and the Kyoto Protocol

**COMPREHENSIVE REVIEW OF THE REGULATORY FRAMEWORK AND POLICIES OF THE ENERGY SECTOR
(PN-M1002)**

A. Similar or related MIF projects

Project number/ Approval date	Project name, sector, executing agency, and MIF contribution	Date signed and disbursement period in months	Percentage disbursed	Comments
ATN/MT-8701-BL 3 May 2004	Strengthening of the Public Utilities Commission Public Utilities Sector Executing agency: Public Utility Commission; MIF contribution: US\$500,000.	11 May 2004. Planned execution period: 36 months	N/A	
ATN/MT-8910-GU 25 October 2004	Strengthening of the National Electricity Commission MIF contribution: US\$500,000; local contribution: US\$250,000.	21 January 2005. Planned execution period: 24 months	60%	Project to improve efficiency and contribute to the sustainability of Guatemala's electric power sector by strengthening the technical and institutional capacities of the Comisión Nacional de Energía Eléctrica [National Electricity Commission].
ATN/MT-5910-DR 1 April 1998	Support for the Public Enterprise Reform Program MIF contribution: US\$2.5 million; local contribution: US\$1.25 million.	18 June 1998. Planned execution period: 24 months	100%	Project to support reform focused on the expansion of private sector participation in the electricity sector.

B. Similar or related Bank projects

Project number/ Approval date	Project name, sector, executing agency, and Bank contribution	Date signed and disbursement period in months	Percentage disbursed	Comments
CA0007 and CA0035 28 November 2001	Central American Electric Interconnection System (SIEPAC) Energy sector Executing agency: Empresa Propietaria de la Red (EPR); IDB loan: US\$240 million.	15 February 2003 60 months	1%	
ATN/SF-8819-ES 25 August 2004	Support for MINEC on Power Markets FSO: US\$115,000; local contribution: US\$10,000.	26 November 2004 Planned execution period: 24 months	60%	Project to consolidate market reforms in El Salvador's electric power sector, to guarantee reliable and competitive supply by the private sector in the long term.

C. MIF projects related to the same sector or beneficiaries

Project number/ Approval date	Project name, sector, executing agency, and amount	Date signed and original disbursement period in months	Percentage disbursed	Comments: Satisfactory execution or problems with execution, including delays, extensions, reformulation, change in executing agency, etc.
ATN/MT-8609-PN 16 January 2004	Development and Promotion of Intellectual Property Executed by the Ministry of Trade and Industry. MIF contribution: US\$500,000; local contribution: US\$438,000.	19 April 2004	5%	Execution in progress.
ATN/MT-7130-PN 13 September 2000	Improvement of Mining Sector Investments Executed by the Ministry of Trade and Industry. MIF contribution: US\$368,000; local contribution: US\$157,000.	31 May 2001	100%	Project concluded satisfactorily.

PANAMA

Cartera del FOMIN en Ejecución al 31 de diciembre de 2005
(Cifras expresadas en miles de US\$)

FOMINES NACIONALES				Aprobado	Desembolsado			Saldo Disponible	Últ Desemb Actual	Plazo de Ejecución
	No.	Espec	Ejecutor/Título		2005	Total	%			
1	ATN/MT-6806-PN	RR	ARI/Desarrollo Areas Revert. II	210.0	(13.7)	196.3	93.5%	13.7	28feb05	31dec04
2	ATN/MT-7257-PN	RC	Industria para la Producción Limpia	400.9	50.4	279.6	69.8%	121.3	22Abr06	22dic05
3	ATN/MH-7258-PN	RC	Industria para la Producción Limpia	812.1	199.7	624.0	76.8%	188.2	22Abr06	22dic05
4	ATN/MT-7307-PN	JMR	Apoyo a las PYMES	582.0	15.0	531.5	91.3%	50.5	17may06	15nov05
5	ATN/MT-7333-PN	RR	Fort. Transporte Urbano	700.0	172.8	348.8	49.8%	351.2	11jun06	11jan06
6	ATN/ME-7469-PN	RR	Incubadora de empresas	1,200.0	88.8	667.5	55.6%	532.5	06feb07	06aug06
7	ATN/ME-7780-PN	FA	Apoyo al sector artesanal panameño	213.1	4.2	213.1	100.0%	(0.0)	19oct05	18mar05
8	ATN/ME-8081-PN	RS	Desarrollo del Mercado E-Commerce	622.3	68.3	172.0	27.6%	450.3	09jul06	09jan06
9	ATN/MH-8128-PN	FA	Desarrollo Competencia Laboral	1,400.0	355.5	745.5	53.2%	654.5	06nov06	05may06
10	ATN/MT-8609-PN	RS	Desarrollo Propiedad Intelectual	500.0	89.2	89.2	17.8%	410.8	19abr08	19oct07
11	ATN/MT-9387-PN	RS	Mejoramiento Seguridad Aeroportuaria	488.8	0.0	0.0	0.0%	488.8	N/D	N/D
	Sub-Total			7,129.2	1,030.1	3,867.3	54.2%	3,261.9		

FOMINES < 100,000				Aprobado	Desembolsado			Saldo Disponible	Últ Desemb Actual	Plazo de Ejecución
	No.	Espec	Ejecutor/Título		2005	Total	%			
1	ATN/ME-9395-PN	RS	Fort. Agro Industria	95.0	0.0	0.0	0.0%	95.0	30sep07	29mar07
2	ATN/ME-9405-PN	RS	Proyecto de Manejo Desechos Solidos	99.2	9.9	9.9	10.0%	89.3	14oct07	14abr07
3	ATN/ME-9522-PN	RS	Promoción de la Responsabilidad Social	100.0	0.0	0.0	0.0%	100.0	N/D	N/D
4	ATN/ME-9578-PN	RS	Fort. Produc. Orgánicos del Valle de Antón	77.0	0.0	0.0	0.0%	77.0	N/D	N/D
5	ATN/ME-9579-PN	RS	Estándares de Calidad en Asoc. Rurales	100.0	0.0	0.0	0.0%	100.0	N/D	N/D
6	ATN/ME-9580-PN	RS	Aplicación de Tics en Coop. Plantación Palr	100.0	0.0	0.0	0.0%	100.0	N/D	N/D
7	ATN/ME-9581-PN	RS	Comercialización de Molas de Calidad	25.0	0.0	0.0	0.0%	25.0	N/D	N/D
8	ATN/ME-9602-PN		Desarrollo de Instrumentos Apoyo Pymes	70.0	0.0	0.0	0.0%	70.0	N/D	N/D
	Sub-Total			666.2	9.9	9.9	10.0%	656.3		

FOMINES REGIONALES				Aprobado	Desembolsado			Saldo Disponible	Últ Desemb Actual	Plazo de Ejecución
	No.	Espec	Ejecutor/Título		2005	Total	%			
1	ATN/MH-6722-RG	JMR	EMPRETEC/ Desarr empres.PYME	596.2	(3.8)	596.2	100.0%	(0.0)	31dec04	9dec04
	Sub-Total			596.2	(3.8)	596.2	100.0%	(0.0)		

TOTALES				8,391.6	1,036.2	4,473.5	53.3%	3,918.2		
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Fecha de último desembolso vencida

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/___

Panama. Nonreimbursable Technical Cooperation ATN/___-____-PN for the Comprehensive
Review of the Regulatory Framework and Policies of the Energy Sector

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Panama, and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-___ with respect to a technical cooperation for the comprehensive review of the regulatory framework and policies of the energy sector.

2. That up to the amount of US\$498,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

(Adopted on __ _____ 200_)

LEG/OPR/RGII/IDBDOCS#670383
PN-M1002