

**PANAMA**

**ENERGY SECTOR CONSOLIDATION SUPPORT PROGRAM I  
(PROGRAMMATIC PBL)**

**(PN-L1033)**

**LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background and rationale .....	1
B.	Objective, components, and cost .....	5
C.	Results Framework.....	9
II.	FINANCING STRUCTURE AND MAIN RISKS .....	9
A.	Financing instruments and contractual clauses.....	9
B.	Environmental and social risks and mitigation measures.....	9
C.	Fiduciary risk.....	10
D.	Other special issues and risks .....	11
III.	IMPLEMENTATION AND MANAGEMENT PLAN.....	11
A.	Summary of implementation measures .....	11
B.	Summary of results monitoring measures.....	11
C.	Policy Letter.....	12

ANNEXES	
Annex I:	Policy Matrix
Annex II:	Development Effectiveness Matrix. Summary

ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Draft Policy Letter <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1909169">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1909169</a>
2.	Means of Verification Matrix <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851118">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851118</a>
3.	Program Results Framework <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851123">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851123</a>
4.	Macroeconomic Evaluation <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851122">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851122</a>
5.	Environmental and Social Management Report <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851120">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851120</a>
6.	Annual Work Plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851140">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851140</a>
7.	Safeguard Policy Filter <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851117">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851117</a>

OTHER REFERENCES	
1.	List of Technical and Supporting Files for Means of Verification <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851119">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1851119</a>

## APPENDICES

Proposed resolution

## ABBREVIATIONS

ANAM	Autoridad Nacional del Ambiente [National Environment Authority]
ASEP	Autoridad de Servicios Públicos [Public Services Authority]
CND	Centro Nacional de Despacho [National Dispatch Center]
COPE	Comisión de Política Energética [Energy Policy Commission]
DPP-MEF	MEF Public Policies Department
ESMR	Environmental and social management report
ETESA	Empresa de Transmisión Eléctrica S.A. [Electric Power Transmission Company]
MEF	Ministry of Economic Affairs and Finance
MICI	Ministry of Trade and Industry
NFPS	Nonfinancial public sector
PBL	Policy-based loan
PCR	Project completion report
PES	Payment for environmental services
REU	Rational energy use
SEA	Strategic Environmental Assessment
SNE	Secretaría Nacional de Energía [National Energy Secretariat]
UTP	Universidad Tecnológica de Panamá [Technological University of Panama]

## PROJECT SUMMARY

### PANAMA ENERGY SECTOR CONSOLIDATION SUPPORT PROGRAM I (PROGRAMMATIC PBL) (PN-L1033)

Financial Terms and Conditions				
<b>Borrower:</b> Republic of Panama <b>Executing agency:</b> Ministry of Economic Affairs and Finance (MEF), in coordination with the National Energy Secretariat (SNE), the Public Services Authority (ASEP), Empresa de Transmisión Eléctrica S.A. (ETESA) and the National Environment Authority (ANAM).			Amortization period:	20 years
			Grace period:	5 years
			Disbursement period:	12 months
Source	Amount	%	Interest rate:	LIBOR
IDB (Ordinary Capital)	US\$100,000,000	100	Inspection and supervision fee:	*
Cofinancing	-	-	Credit fee:	*
Local contribution	-		Currency:	U.S. dollars from the Single Currency Facility
Total	US\$100,000,000	100		
Project at a glance				
<b>Program objectives and description:</b> The program's objective is to support the public policies being adopted by the Government of Panama to consolidate energy sector reforms aimed at guaranteeing sector sustainability to underpin the country's growth and help reduce poverty. The program will support actions already taken as well as the medium-term consolidation program, in the following areas: institutional capacity of the Executive Branch; the effectiveness of State-owned firms in the energy sector; promotion of renewable energies, bioenergy and energy efficiency; social and environmental safeguards in energy projects; regulatory issues and the promotion of private investment; and the rationalization of energy sector subsidies.				
<b>Special contractual conditions:</b> Loan disbursement is contingent on the fulfillment of policy reform measures, as specified in Chapter I Section B and Annex I (Policy Matrix). Agreements have also been reached on obligations relating to the tracking and monitoring of results as set out in Chapter II Section B.				
<b>Exceptions to Bank policies:</b> None.				
<b>Project qualifies as:</b> SEQ [    ]              PTI [    ]              Sector [    ]              Geographic [    ]              Headcount [    ]				
<b>Procurement:</b> Not applicable as this is a policy-based loan.				

\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background and rationale

- 1.1 As part of the Inter-American Development Bank's Sustainable Energy and Climate Change Initiative (SECCI), this loan proposal corresponds to the first loan in a programmatic policy-based operation being implemented by the Panamanian government to consolidate energy sector reforms, with a view to guaranteeing the sector sustainability needed to underpin the country's growth and help reduce poverty. The program supports reforms already adopted by the authorities as well as the medium-term program to consolidate them, through: (i) effective coordination of the government institutions operating in the sector; (ii) better management and effectiveness of State-owned enterprises in the energy sector; (iii) adoption of consistent regulations and policies that allow for a diversified energy matrix and help reduce greenhouse gas emissions and adapt to climate change; (iv) better environmental management in energy plans, programs and projects; (v) improvement of regulatory issues and promotion of private investment; and (vi) rationalization of energy sector subsidies.
- 1.2 **Macroeconomic situation.** In 2008, Panama succeeded in extending much of the economic success it had achieved in the previous year. Real gross domestic product (GDP) is estimated to have grown by almost 9% for the year, one of the highest rates in the region, driven by the construction sector (both private real estate and infrastructure) and by net services exports. Inflation surged in early 2008, largely reflecting the high food and energy prices at the start of the year; but its subsequent slackening, starting in October, left the annual rate at 6.8% for 2008 and 4.9% as of January 2009. The final annual rate for 2009 is expected to fall to 4% or less. The current account for 2008 is forecast to be over 10.5% of GDP, owing to a rapid expansion in imports of investment goods to support growth, which was mainly financed by foreign direct investment. On the fiscal front, the nonfinancial public sector (NFPS) is expected to close 2008 with a small surplus (less than 0.4% of GDP). Although revenue grew strongly, there was also higher expenditure on energy and food subsidies. The financial sector continues to display robust and stable liquidity and capital adequacy indicators, although private credit has slackened, particularly to finance new construction and consumption, and credit for correspondent banks abroad has retreated.
- 1.3 The challenge facing the Panamanian economy in 2009 and 2010 will be to navigate the global external crisis at a time when the country is changing government, while also persevering with long-term reforms. The base-case scenario is for a controlled 50% slowdown in economic activity, with GDP growing by roughly 5.5% in 2009; the fiscal deficit is maintained at 1% of GDP, and construction of the Panama Canal locks is expected to start on time in early 2010. Compared to its neighbors, Panama is in a relatively strong position to cope with a crisis, for several reasons: (i) the pace of economic growth over the last few years has generated a sense of confidence and optimism that may help to keep domestic investment afloat. (ii) the Panama Canal is in an excellent financial position to start

the expansion project in early 2010, precisely when the global crisis could have its greatest impact in the region. That project will thus act as a natural economic stimulus. (iii) the consolidation of fiscal accounts means that the government will not have to rely so much on external financing, while also enjoying the fiscal headroom needed to undertake its ambitious public investment program; and (iv) the controlled slowdown in the residential construction sector could prove a welcome development, given the unsustainable growth rates that had been recorded in previous years. The US\$1.11 billion second-tier Financial Stimulus Program for credit reflects a major effort to thwart the potential effects of the crisis.

- 1.4 Nonetheless, the potential risks cannot be underestimated. The crisis could prove more serious than expected, or have a very abrupt impact on the economy. The magnitude of total capital outflows is unclear, particularly in relation to the international banking sector. If capital flight is very fast, credit will dry up quicker than expected. It is also unclear what proportion of new luxury buildings are intended for North American and European customers, who could try to sell their residences if they face financial problems, thereby triggering excess supply that would drive down property prices and undermine confidence in the sector. Lastly, a sudden drop in the demand for goods and services exports could generate a current account deficit that is unsustainable in the long term and difficult to finance in the short term. For the time being, however, there are no signs of these risks actually materializing, and the Panamanian people remain cautiously optimistic.
- 1.5 **The Panamanian energy sector.** The Panamanian energy matrix is highly dependent on oil, which accounts for almost 80% of the country's total energy supply. The specific hydrocarbon share in energy consumption is considerably higher when account is taken of the fact that the fuels used in thermal power generation are mainly bunker, diesel, and marine diesel. Moreover, the supply from national energy sources has been declining rapidly, such that external supply has seen its share grow from 59% of total energy consumption in 2000 to 79% in 2007. The country has installed generating capacity in the 1,659 megawatt (MW) system, to meet a maximum demand of 1,064 MW. Net power generation in 2008 amounted to 6.078 gigawatt-hours (GWh), 66% of which was obtained from renewable sources (hydropower) with the other 34% coming from conventional fossil-fuel-based thermal power.
- 1.6 A large number of Panamanian government agencies and private enterprises participate in the energy sector. The government is responsible for policymaking and regulation, acting through the various line ministries. These are coordinated through the recently created National Energy Secretariat (SNE), which also coordinates the functions of the Energy Policy Commission (COPE), the National Hydrocarbons and Alternative Energies Department (DNHAE) of the Ministry of Trade and Industry (MICI) and the National Energy Saving Commission (CONAE). The power sector is regulated by the Public Services Authority (ASEP). The public and private sectors both participate in the current structure of the Panamanian electricity sector, which provides a competitive setting to provide the

public electricity service. Law 6 of 1997 separated generation, transmission, and distribution activities. Both in the generating sector and in distribution, majority private ownership was introduced in the companies that were created from the vertically integrated government enterprise. In the transmission sector, a State-owned electricity transmission company, Empresa de Transmisión Eléctrica S.A. (ETESA), was set up with responsibility for expanding and operating the transmission system, as well as operation of the energy market. Another participant in the generating sector is the State-owned Empresa de Generación Eléctrica S.A. (EGESA), which was created partly to address the crisis of investment in new generating capacity.

- 1.7 **Energy sector problems and policies.** As in almost all of the region's countries, Panama implemented major reforms in the energy sector in the 1990s. The model adopted for the electric power sector was well directed and innovative for its time. Unlike other experiences in the region, the State retained a shareholding in the privatized firms, but yielded control to the strategic investor. This has produced a major source of revenue as well as benefits in terms of management efficiency. In addition, the electric power market and regulatory agencies were designed taking due account of the country's characteristics, and there was a well-designed transition.
- 1.8 Despite this, and as happened in all countries that implemented reforms in the 1990s, experience proved some assumptions to be unsound, which rendered the model vulnerable both to external effects, as shown by the rise in international fuel prices, and domestic ones. Accordingly, adjustments have had to be made. Although these adjustments are certainly not radical in Panama's case, they are important for the model's sustainability.
- 1.9 Optimistic assumptions about the incentives for distributing firms to contract long-term energy efficiently on behalf of demand, resulted in a lack of investment in new generation which has exposed the market to fuel price volatility over the last few years. Moreover, the need to grant well-targeted subsidies to low-income consumers was underestimated, while capacity to extend the electricity service throughout the country was overestimated. The importance of constraints on efficient management of ETESA as a State-owned firm was also underestimated; and experience showed that it was difficult to maintain the regulator's prestige and legitimacy. Lastly, the fact that policy organizations were spread across two ministries resulted in a duplication of functions and difficulties in ensuring the high-quality technical support that the government needs to take timely sector decisions.
- 1.10 **Rationale:** The adjustment needed in Panama's energy model is consistent with the pillars of the Bank's Sustainable Energy and Climate Change Initiative and is a continuous process rather than a single event. The Bank has been supporting the government in adjusting the energy sector model, through a set of loan and technical assistance operations that began in 2006 with support provided by the program, Comprehensive Review of the Regulatory Framework and Policies of the Energy Sector (PN-M1002, ATN/MT-9698-PN); and it continued by funding a



consultant to help the government evaluate the adjustments needed in electricity sector reforms. It also financed three technical-cooperation operations: (i) Support for Bioenergy, Energy Efficiency, and Renewable Energy Programs (PN-T1042, ATN/MC-11323-PN), which aims to encourage the development of the institutional framework in the energy sector and the development of renewable energy and energy efficiency in Panama; (ii) Support for the Climate Change Action Plan of Panama (PN-T1059, ATN/MC-11366-PN), which seeks to help the National Environment Authority (ANAM) develop and strengthen its national climate change strategy; and (iii) Support for the Investment and Corporate Transformation Program for ETESA (PN-T1047, ATN/OC-10965-PN), which among other things supports environmental and social viability studies for new investments in energy transmission, which will make it possible to incorporate the electric power obtained from new traditional hydropower sources and nontraditional renewable energy in Panama into the national interconnected system.

- 1.11 The Government of Panama has taken significant steps to consolidate the energy sector, including: (i) creating the SNE through Law 52 of 2008; (ii) making improvements to corporate governance at ETESA and enhancing its technical capacity, and actions aimed at making State-owned companies more effective; (iii) supporting the development of energy efficiency programs through the rational use of energy and promoting renewable energies that help reduce greenhouse gas emissions and contribute to adaptation to climate change; (iv) strengthening and modernizing environmental and social management; (v) actions to recover investor interest in power generation leading to effective competition in new energy supply, and actions to make the regulator's work more transparent; and (vi) actions to legitimize the reforms through a more transparent, effective subsidy process. The present program will recognize these efforts and promote the program in the medium term, to use these gains to consolidate sustainable development of Panama's energy sector.
- 1.12 The need to make adjustments to electricity sector reforms and the main elements that have been successfully adjusted have been amply documented in studies on second-generation reforms already done in other countries. The book published by the IDB in 2006, "Entre el mercado y el Estado – Tres décadas de reformas en el sector eléctrico de América Latina" [Between the Market and the State—Three Decades of Reform in Latin America's Electricity Sector], relates different experiences related to the proposed reforms in Panama, particularly the changes that need to be made to institutions and market rules to encourage private participation. Those experiences were borne in mind when the adjustments were made to Panama's energy model.
- 1.13 The proposed program supports the country's strategy for developing its energy sector, and it is also consistent with the Bank's country strategy (document GN-2385-1) which proposes support for a comprehensive review of the regulatory framework and energy sector policies. The strategy for energy sector consolidation in Panama is consistent with SECCI and is supported with resources from the

SECCI Fund through technical-cooperation operations PN-T1042 and PN-T1059. In particular one of the program components is aimed at supporting formulation and implementation of consistent, effective, and efficient policies and standards to promote energy efficiency, development of renewable energies, and bioenergy that allow for a diversified energy matrix and help reduce greenhouse gas emissions and contribute to adaptation to climate change.

**B. Objective, components, and cost**

- 1.14 The program's objective is to support the public policies adopted by the government with a view to consolidating Panama's energy sector reforms and thus ensure the sector sustainability needed to underpin the country's growth and help reduce poverty. The program will support actions already adopted and the medium-term consolidation plan in the following areas: institutional capacity of the Executive Branch and effectiveness of State-owned enterprises in the sector; promotion of renewable energy, bioenergy, and energy efficiency; social and environmental safeguards in energy projects; regulatory issues and promotion of private investment; and the rationalization of energy sector subsidies.
- 1.15 The objectives and targets for each of the following components are set out in detail in the Policy Matrix (Annex I), and supported by the Policy Letter<sup>1</sup> prepared by the government authorities.
- 1.16 **Component I: Macroeconomic stability.** The aim of this component is to verify that the macroeconomic setting remains consistent with the program's objectives and the Sector Policy Letter.
- 1.17 **Component II: Improvement and consolidation of institutional capacity in the energy sector.** The aim here is to recognize and maintain support for government efforts to develop institutional capacity and put trained staff in place to set and implement coherent energy policies, through the following policy actions:
- 1.18 *Implementation of the new institutional structure for energy sector coordination:* The creation of the SNE will provide a coordination mechanism and a steering agency for the sector to ensure policy coherence, involving all government agencies participating in the sector. Further efforts are needed to obtain adequate staffing and resources. Through technical-cooperation operation PN-T1042 (approved in November 2008), the Bank will support the structuring of the SNE, its corporate organizational structure, definition of specific objectives, and the institutional management system. It will also support the definition of a legal and regulatory framework in the Regulations to Law 52 of 2008 that created the SNE, together with staff training and dissemination of the National Energy Plan. Fulfillment of this agenda and the hiring of suitable staff for key directive posts will be crucial to ensure that the changes proposed result in better decisions and policies for the energy sector. Bank support is therefore crucially important to ensure that these

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<sup>1</sup> See link: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1862786>.

- milestones are achieved, with the medium-term goal of putting a consolidated institutional framework in place.
- 1.19 *Involving higher education institutions in preparing suitable staff for the energy sector:* The aim here is to help raise the level of debate by strengthening centers of excellence to study and discuss energy issues, and to train highly skilled staff to set and implement energy policies. With Bank support through technical-cooperation operation PN-T1042 (approved in November 2008), a program has been defined to strengthen the capacity of *higher education institutions* in the energy sector, involving the Technological University of Panama (UTP); and this program is expected to be extended to other academic entities in the medium term.
- 1.20 **Component III: Effectiveness of State-owned companies in the energy sector.** The objective of this component is to improve the effectiveness of State-owned companies in the energy sector by adopting good corporate governance practices and providing specialized tools through two lines of action:
- 1.21 *Start of the introduction of best corporate governance practices in State-owned companies:* This will support the introduction of corporate governance practices in State-owned companies in the energy sector, based on the process that has already begun in ETESA. This is receiving Bank support through technical-cooperation operation PN-T1047 (practically completed) and the loan program, Investment and Corporate Transformation Program for ETESA - Phase I (PN-L1031 currently under execution, loan 2024/OC-PN), which has included a diagnostic study and a corporate governance action plan. Reforms to ETESA corporate governance will serve as an example to be replicated in the management of other companies in which the government maintains a majority shareholding.
- 1.22 *Start of the process of providing tools and defining the functions of ETESA:* The aim here is to make ETESA more effective, by giving it the tools it needs and reviewing its functions. The Bank has provided assistance to ETESA to overcome the lack of modern tools for planning under conditions of uncertainty. Moreover, as ETESA fulfills several functions other than energy transmission, which are not part of its main function, a review will be made of the execution structure of these functions to ensure their independence, financing, and effectiveness.
- 1.23 **Component IV: Promotion of renewable energies, bioenergy, and energy efficiency.** The aim of this component is to recognize and continue supporting the authorities in formulating and implementing consistent, effective, and efficient policies and regulations to promote energy efficiency, the development of renewable energies, and bioenergy, to allow for a diversified energy matrix and help reduce greenhouse gas emissions and adapt to climate change. The lines of action are as follows:
- 1.24 *Promotion of the development of an energy efficiency and rational energy use program:* The authorities have begun actions in this field through many specific programs, but their scale and effectiveness can both be increased through consistent, effective policies and regulations leading to a coherent program of

actions in this area. Energy efficiency projects in lighting have been developed, as well as a proposal for technical standards for compact efficient lamps. A Rational Energy Use (REU) bill has also been prepared. An action plan for REU is needed for 2009, which would be based on existing studies, the REU bill and the Electric Power Saving Trust (FIDE) study, to be partly financed by technical-cooperation operation PN-T1042 (approved in November 2008). This will make it possible to adopt urgent priority measures and prepare longer term programs. In the medium term these efforts should provide Panama with a consistent program and a regulatory and legal framework on energy efficiency and REU, to promote projects in the sectors on both sides of the energy supply and demand equation.

- 1.25 *Promotion of renewable energies and bioenergy:* Panama's energy matrix is not sufficiently diversified partly because of the lack of regulation and clarity of Law 45 of 2004; the fact that its renewable resources inventory is out of date; and a lack of information for adopting bioenergy programs. Proposals have been prepared to regulate and/or amend Law 45 of 2004, with a view to effectively promoting and providing incentives for renewable energy projects. A regulation has been approved to simplify requirements for energy exchange and connection between renewable self-generators and the grid. Moreover, the program to be implemented with the UTP has included the Multicriterion Identification of Alternative Energies, financed through technical-cooperation operation PN-T1042 (approved in November 2008). Renewable energy incentives should produce an effective change in Panama's energy matrix in the medium term.
- 1.26 **Component V: Improvement of environmental and social management for energy projects.** The aim of this component is to recognize and maintain support for the government's efforts to improve the environmental and social management system for energy projects, in line with best international practices and the national reality, and thus minimize the conflicts that have arisen with actors involved in developing hydropower and wind farm projects.
- 1.27 *Start of the process to improve environmental and social management in the energy sector.* The main lines of action include the following: the authorities' decision to apply the Strategic Environmental Assessment (SEA) to the various sector development plans and programs, including those in the energy sector; design and implementation of this tool and the agreement to perform an SEA on the National Energy Plan, as one of the pilot cases in the design of the tool. Amendments have also been prepared to the regulation governing environmental impact studies, with the aim of improving community participation; a draft law has been prepared on payment for environmental services (PES) by electric power generation in Panama; and an agreement has been reached to evaluate the social and environmental safeguards process in relation to the exploitation of energy projects in Panama. These activities will provide the country with effective and efficient environmental and social management in the energy sector in the medium term, including the implementation of PES for energy projects, and SEAs for all sector plans and programs, which will contribute to timely project development.

- 1.28 **Component VI: Better regulation and promotion of private participation in the electricity sector.** The aim of this component is to recognize and continue to support government efforts to improve regulatory management, enhance the credibility and accountability of the regulatory body, and increase the availability of information to strengthen trust among investors and the general public in the electricity market, through the following lines of action:
- 1.29 *Incentives for long-term electric energy contracting:* To clear the bottlenecks that have hampered investment in new power generation projects in Panama, a single bidding document has been adopted and was used in the first successful long-term contracting process in September 2008. There are still a number of deficiencies in the long-term contracting process, however, so it has been agreed to hold a forum in 2009 to assess the remaining shortcomings and discuss options for changes to be implemented in the medium term.
- 1.30 *Improving regulator credibility and accountability:* The regulator's actions made it possible to introduce adjustments and find solutions to contracting and concession procedures for meeting the challenges involved in restoring investor confidence, without undermining consumer interests in line with the spirit of Law 6 of 1997. To ensure the continuity of this process, an agreement has been reached with ASEP to implement a program of electricity consumer satisfaction surveys, and to adopt a regulatory agenda to be addressed in the short and medium terms, which will also be made available to the public. The Ministry of Economic Affairs and Finance (MEF) has also produced a plan to conduct the audits mentioned in Article 28 of Law 29 of 2006, which regulates ASEP, authorizing periodic evaluations to be made of ASEP performance. These actions will make it possible to consolidate ASEP regulatory work, and ensure satisfactory results in the periodic evaluations.
- 1.31 *Increasing the availability of information on the electricity market:* ASEP has taken major steps to make public information on the electricity market more readily available, by having the National Dispatch Center (CND) post market operation reports and a summary of the reports by the Market Surveillance Group on the Internet. Nonetheless, public information on market performance could be improved further.
- 1.32 **Component VII: Rationalization of subsidies in the energy sector.** The aim of this component is to support the Panamanian government in its efforts to target energy sector subsidies more effectively on low-income consumers.
- 1.33 *Actions to improve the targeting of energy sector subsidies.* The subsidy effort can be targeted on the poorest groups, while also improving the functioning of fuel price stabilization funds without the need to significantly increase the tax burden, and without reducing incentives for efficient energy use. On this point, the threshold monthly consumption for users to receive contributions from the rate stabilization fund has been lowered from 1,000 kilowatt-hours (kWh) to 500 kWh, and a study will be undertaken to target subsidies more effectively on the poorest sectors in the energy sector.

## **C. Results Framework**

- 1.34 The Results Framework (see electronic link) contains outcome indicators associated with the program's various components, which have been formulated and projected in both the short (2012) and medium terms (2015) to help evaluate the program's impact. The various agencies involved in this program have analyzed and agreed upon the indicators and will help monitor them.

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instruments and contractual clauses**

- 2.1 This will use a programmatic policy-based loan; it will consist of three single-tranche loans, with a medium-term framework in the electric power sector, including specific policy and institutional measures. This modality makes it possible to consolidate the support that the Bank has been giving to sector reforms through technical assistance and provide the flexibility needed to develop and implement measures to achieve the program's expected outcomes.
- 2.2 **Size and financial support.** The size of the first operation in this program, and of subsequent operations, is discussed in the programming dialogue between the Bank and the country and is based on the country's financing strategy in the areas where the government expects to receive support from multilateral organizations, and also on debt sustainability. As a result of this dialogue, the Panamanian government and the Bank have agreed on US\$100 million as the amount for the first operation. The size of subsequent operations, envisaged as an annual sequence, will be reviewed during the corresponding annual programming dialogues. Annex I spells out the triggers for processing programmatic loans II and III, which preliminarily are expected to be approved in the second quarters of 2010 and 2011 respectively. Some of the program's actions will be supported through the technical-cooperation operations mentioned in paragraph 1.10.

### **B. Environmental and social risks and mitigation measures**

- 2.3 The program's activities will consolidate energy sector reforms in Panama, which aim to improve environmental and social management of the sector in the medium and long terms, generating a positive, highly significant impact. As the program will not be financing physical investments, no direct negative or positive social or environmental impact is expected. Pursuant to directive B.13 of the Bank's Safeguards Policy, the operation is not subject to ex ante impact classification. Program preparation analyzed the country's specific policies and institutional changes supported by the operation to verify any potentially significant environmental and social impacts that could be generated by the program components. The program's environmental and social management report (ESMR) was prepared on the basis of this.
- 2.4 As the implementation of some of the plans and other outputs to be generated by the components of this initiative could generate significant indirect, cumulative

impacts, it has been agreed to use an SEA to analyze the environmental and social impact caused. Thus, during program execution, it will be necessary to continue support for the design and implementation of the reforms, seeking to avoid and minimize any potentially negative indirect impacts or offset them through suitable measures to be analyzed on a case-by-case basis, with active participation from the institutions involved.

- 2.5 Program preparation also took account of the links existing between the various ongoing initiatives, with a view to avoiding duplication of effort and to using resources efficiently. In particular, currently executing Bank-related initiatives were identified that could contribute to the objectives of this operation. Account was also taken of the results of already completed Bank-funded programs and similar initiatives in other institutions that could help enhance and strengthen the sustainability of program outcomes.
- 2.6 Lastly, the ESMR summarizes the program's environmental and social requirements and the corresponding monitoring and supervision plan, making a number of recommendations. These include close monitoring of the various consulting services planned for this program, which will require significant internal coordination inside the Bank, with the consultants and various institutional stakeholders involved. From the environmental standpoint, the utmost importance will be given to the consulting service to be hired with Bank support (technical-cooperation operation PN-T1047, approved), for the purpose of evaluating the social and environmental safeguards process in energy projects in Panama, including responsibility and coordination on social issues and consideration of the PES mechanism.

**C. Fiduciary risk**

- 2.7 The Bank is supporting this program through a programmatic policy-based loan, which will provide unrestricted funds provided there is a responsible fiscal policy framework in place. No significant fiduciary risk is envisaged.

**D. Execution risks**

- 2.8 The MEF will be the executing agency and will coordinate through its Public Policies Department (DPP-MEF). Primary technical responsibility will rest with the MEF, which will coordinate with other entities such as the SNE, ASEP, ETESA and ANAM, as necessary. Formal dealings with the Bank will be led by the MEF and the SNE. The MEF will coordinate through DPP-MEF, which has wide-ranging experience working with the Bank in sector loan operations, and has adequate staff.
- 2.9 Despite this experienced leadership, there is a risk that sustained coordination between the large number of institutions involved may not be achieved. This risk is mitigated by the government's decision and actions to consolidate the sector; and by the fact that the MEF has appointed a Program Coordinator with full responsibility for monitoring the fulfillment of all contractual commitments.

**D. Other special considerations and risks**

- 2.10 Other program-related risks were discussed with government officials during preparation. These include the fact that presidential and legislative elections are scheduled for 2009, and the corresponding change of administration might change the orientation of the reforms to be supported by the program. Nonetheless, there is consensus that those risks are mitigated by the government's own determination to implement the program, given its national importance in maximizing the benefits of the energy sector; and also by the conviction shown by political institutions that supported the recent creation of the SNE for the purpose of consolidating the sector. Moreover, the programmatic structure of the operation offers flexibility for adjustments to be made to the reforms before the second operation is approved, and the commitments under the first program will be implemented by the current administration.

**III. IMPLEMENTATION AND MANAGEMENT PLAN**

**A. Summary of implementation measures**

- 3.1 The borrower will be the Republic of Panama. As noted above, the MEF will be executing agency. Through the DPP-MEF, it will coordinate with other entities such as the SNE, ASEP, ETESA, and ANAM, as necessary. Formal dealings with the Bank will be conducted by the MEF and the SNE.
- 3.2 The MEF, in its capacity as executing agency, will have the following responsibilities: (i) supervise the fulfillment of the various conditions in coordination with the other ministries and agencies; (ii) file reports and present evidence of the fulfillment of the operation's conditions, and any other information that the Bank may request; (iii) promote actions to achieve the policy goals specified in the program, particularly those included as triggers for the second and third operation; and (iv) compile, file and deliver to the Bank all information, indicators, and parameters that help the government and the Bank to monitor, measure, and evaluate program outcomes.

**B. Summary of results monitoring measures**

- 3.3 The project team will monitor this program within the Bank. The borrower and the Bank have agreed to hold monitoring meetings, on dates to be agreed upon. Before processing the program's second loan, the project team will produce a status report, reviewing the trends of program indicators, to identify progress and justify proposals for any alterations that may be needed to achieve the program's targets.
- 3.4 Pursuant to Bank procedures, a project completion report (PCR) will be produced within six months after the conditions for disbursing the final loan of the programmatic operation have been satisfied. The PCR will evaluate the impact obtained and achievement of the expected outcomes.
- 3.5 The borrower will compile all data needed for monitoring and evaluation. The authorities will cover the costs of collecting and processing this information.



**C. Policy letter**

- 3.6 The policy letter presented by the government reflects the conditions and commitments assumed under the Energy Sector Consolidation Program, describing the main components of the government's strategy for this program and reaffirming its commitment to implement the activities agreed upon with the Bank.

**PANAMA: Programa de Apoyo a la Consolidación del Sector Energético I**  
**(PBL - Policy Based Loan)**  
**PN-L1033**

**ANNEX I**  
**Development Effectiveness Matrix**  
**Summary**

Criterion	Score
<b>Section 1. IDB Strategic Development Objectives – Area Rating</b>	<b>8.575</b>
Country Diversification	2
Corporate Initiatives	5
Harmonization and Alignment	1.575
Beneficiary Target Population	0
<b>Section 2. Country Strategy Development Objectives – Area Rating</b>	<b>6.9</b>
Country Strategy Sector Diagnosis	4.5
Country Strategy sector objective and indicator	2.4
<b>Section 3. Program Logic – Area Rating</b>	<b>6.71</b>
Program Diagnosis	1.95
Proposed Solutions (@ PP)	0
Proposed Solutions (@ POD)	2
Results Matrix Quality	2.76
<b>Section 4. Evaluation &amp; Monitoring – Area Rating</b>	<b>2.9997</b>
I. Evaluation	0
II. Monitoring	2.9997
<b>Section 5. Economic Performance – Area Rating</b>	<b>0</b>
Economic Rate of Return	0
Cost-effectiveness	0
\$ saved as % of loan	0
<b>Section 6. Risk Management – Area Rating</b>	<b>7.5</b>
Environmental & social risk classification	0
Environmental & social risk policy compliance	
Risk Matrix Score	5
Mitigation Matrix Score	2.5
<b>Section 7. Additionality- Area Rating</b>	<b>6.666</b>

**PANAMA: ENERGY SECTOR CONSOLIDATION SUPPORT PROGRAM I (PN-L1033)**  
**RESULTS MATRIX**

OBJECTIVES	PROBLEM TO BE ADDRESSED	POLICY MEASURES PROGRAMMATIC LOAN I - US\$100 MILLION (FIRST QUARTER 2009)	TRIGGER MECHANISMS PROGRAMMATIC LOAN II	TRIGGER MECHANISMS PROGRAMMATIC LOAN III
<b>I. GENERAL MACROECONOMIC POLICY FRAMEWORK</b>				
Maintain macroeconomic setting		Macroeconomic framework consistent with the program's objectives and the guidelines set out in the Sector Policy Letter.	Macroeconomic framework consistent with the program's objectives and the guidelines set out in the Sector Policy Letter.	Macroeconomic framework consistent with the program's objectives and the guidelines set out in the Sector Policy Letter.
<b>II. IMPROVEMENT AND CONSOLIDATION OF INSTITUTIONAL CAPACITY IN THE ENERGY SECTOR</b>				
Ensure institutional capacity and skilled staff are in place to set and implement coherent energy policies.	Dispersion of functions and lack of a voice for the sector with the cabinet.	<p>Implementation of the new institutional structure for coordination of the energy sector:</p> <ul style="list-style-type: none"> <li>• The law creating the National Energy Secretariat (SNE) has been approved and is in force.</li> <li>• An initial organizational structure has been defined for the SNE and is being formally implemented.</li> <li>• Basic staff have been assigned to the SNE, and the formalities of permanently transferring COPE and MICI staff to the SNE are currently under way.</li> <li>• The SNE is operating out of temporary premises, but a permanent physical headquarters has been identified for which contracts are being prepared.</li> <li>• SNE budget for 2009 approved.</li> <li>• The SNE has an approved work plan for 2009.</li> </ul>	<p>The new institutional structure has been fully established and the sector has a steering agency and main voice.</p> <ul style="list-style-type: none"> <li>• The SNE has been structured as recommended by the technical-cooperation studies.</li> <li>• The Energy Secretary and senior personnel have been hired and staff have been trained.</li> <li>• Evidence provided that work to harmonize energy policies has started.</li> <li>• Study contracted to evaluate the first year of the SNE, under terms of reference agreed upon with the Bank.</li> </ul>	<p>The new institutional structure of the sector has been consolidated.</p> <ul style="list-style-type: none"> <li>• Measures have been adopted to overcome problems identified in the evaluation of the SNE's first year of operations.</li> </ul>

OBJECTIVES	PROBLEM TO BE ADDRESSED	POLICY MEASURES PROGRAMMATIC LOAN I - US\$100 MILLION (FIRST QUARTER 2009)	TRIGGER MECHANISMS PROGRAMMATIC LOAN II	TRIGGER MECHANISMS PROGRAMMATIC LOAN III
	Lack of suitably skilled staff to define and implement energy policies.	<p>Incorporation of higher education institutions to train suitable staff for the energy sector:</p> <ul style="list-style-type: none"> <li>• A program has been defined to strengthen the capacity of higher education institutions in the energy sector.</li> <li>• It has been agreed to involve higher education institutions in the process of strengthening capacity to train professionals in the energy sector.</li> </ul>	<p>Several universities have joined the process of training professionals in the energy sector.</p> <ul style="list-style-type: none"> <li>• Diploma in Efficient Management of Energy Resources created.</li> <li>• Other universities have joined the program.</li> </ul>	<p>Several universities have joined the process of training professionals in the energy sector.</p> <ul style="list-style-type: none"> <li>• Highly skilled staff are in place to define and implement energy policies.</li> </ul>
<b>III. EFFECTIVENESS OF STATE-OWNED COMPANIES IN THE ENERGY SECTOR</b>				
Improve the effectiveness of State-owned companies in the energy sector by adopting good corporate governance practices and providing specialized tools.	Lack of corporate governance hampers the management of State-owned companies, and the absence of a policy on State interests in the companies in which it has a stake.	<p>Process to introduce corporate governance practices in State-owned companies:</p> <ul style="list-style-type: none"> <li>• Executive diagnostic study conducted on corporate governance in ETESA</li> <li>• Plan of action prepared to improve ETESA corporate governance, and decision taken to start implementing actions within the remit of ETESA organs.</li> <li>• First activities of the ETESA action plan in execution.</li> </ul>	<p>Substantial progress in implementing the ETESA corporate governance plan, and the start of actions in other State-owned companies:</p> <ul style="list-style-type: none"> <li>• Items in the ETESA action plan not requiring legislative changes have been adopted.</li> <li>• Draft laws have been prepared for the legislative changes that could be required in ETESA.</li> <li>• A program has been initiated to extend corporate governance practices to other State-owned firms.</li> </ul>	<p>Corporate governance and official representation in State-owned firms has been improved.</p> <ul style="list-style-type: none"> <li>• The government has professional representation on the boards of directors of State-owned firms and those in which it has a minority holding.</li> <li>• ETESA performance is satisfactory, according to independent evaluation.</li> <li>• Plan of action being implemented in other State-owned companies.</li> </ul>

OBJECTIVES	PROBLEM TO BE ADDRESSED	POLICY MEASURES PROGRAMMATIC LOAN I - US\$100 MILLION (FIRST QUARTER 2009)	TRIGGER MECHANISMS PROGRAMMATIC LOAN II	TRIGGER MECHANISMS PROGRAMMATIC LOAN III
	ETESA lacks modern tools for planning under conditions of uncertainty. Apart from energy transmission, ETESA fulfills various other roles that are not part of its main function. The execution structure of these functions needs to be reviewed, to ensure their independence, financing, and effectiveness.	<p>Process of providing tools and evaluation of ETESA functions:</p> <ul style="list-style-type: none"> <li>• Diagnostic assessment performed and recommendations made on suitable tools for planning under conditions of uncertainty.</li> <li>• A start has been made to institute separate accounting for the various functions executed by ETESA.</li> <li>• It has been agreed to prepare an evaluation of the National Dispatch Center (CND), its decision-making structure and functioning within the electricity market.</li> </ul>	<p>ETESA has planning tools in place and is using them to minimize the risks of uncertainty, with clearly defined functions.</p> <ul style="list-style-type: none"> <li>• ETESA has implemented suitable instruments for planning under conditions of uncertainty and is using them.</li> <li>• Independent financial statements for the different functions undertaken by ETESA are prepared and published</li> <li>• The recommendations of the assessment of ETESA functions have been adopted</li> <li>• Measures have been adopted to strengthen the CND based on the evaluation performed.</li> </ul>	<p>ETESA has planning tools in place and is using them to minimize the risks of uncertainty, with clearly defined functions.</p> <ul style="list-style-type: none"> <li>• ETESA has implemented suitable instruments for planning under conditions of uncertainty and is using them.</li> <li>• New ETESA business organization operating</li> </ul>
<b>IV. PROMOTION OF RENEWABLE ENERGIES, BIOENERGY, AND ENERGY EFFICIENCY</b>				
Adopt consistent, effective, and efficient policies and regulations to promote renewable energies, bioenergy, and energy efficiency, resulting in a diversified energy matrix, and helping to reduce greenhouse gas emissions and adapt to climate change.	Studies, proposals, and specific programs on energy efficiency and rational energy use (REU) exist, but their scale and effectiveness could be increased through consistent, effective policies and regulations that result in a consistent program of actions in this area.	<p>Promotion of the development of an energy efficiency and REU program.</p> <ul style="list-style-type: none"> <li>• An energy efficiency project in lighting for residential consumers is currently being implemented.</li> <li>• A draft regulation has been prepared for technical standards on efficient compact lamps that is currently under consultation.</li> <li>• REU plan of action has been adopted for 2009, which will make it possible to adopt urgent priority measures and prepare longer-term programs.</li> </ul>	<p>A consistent energy efficiency and REU program has been adopted to promote projects in sectors on both sides of the energy supply and demand equation.</p> <ul style="list-style-type: none"> <li>• An REU program has been adopted and the draft REU Law has been presented to the legislative assembly.</li> <li>• A financing plan has been defined for the REU program, and measures adopted as recommended in the study.</li> </ul>	<p>The country has a coherent program and legal and regulatory framework for energy efficiency and REU to promote projects in sectors on both sides of the energy supply and demand equation.</p> <ul style="list-style-type: none"> <li>• Rational energy use law approved and REU program in execution.</li> </ul>

OBJECTIVES	PROBLEM TO BE ADDRESSED	POLICY MEASURES PROGRAMMATIC LOAN I - US\$100 MILLION (FIRST QUARTER 2009)	TRIGGER MECHANISMS PROGRAMMATIC LOAN II	TRIGGER MECHANISMS PROGRAMMATIC LOAN III
	The existing energy matrix is insufficiently diversified, partly because of the lack of regulations for Law 45 and/or obsolescence of the renewable resources inventory; and a lack of information for adopting bioenergy programs.	<p>Promotion of renewable energies and bioenergy:</p> <ul style="list-style-type: none"> <li>• Draft regulations and/or amendments to Law 45 have been prepared, aimed at effectively promoting and providing incentives for renewable energy projects.</li> <li>• A regulation has been approved to simplify the requirements for exchanges and connection of renewable energy self-generators and the grid.</li> <li>• It was agreed to carry out the multicriterion identification of alternative energies, together with the corresponding criteria to avoid or minimize negative social and environmental impacts in the development of renewable energy promotion plans and programs.</li> </ul>	<p>The country has a regulatory and legal framework that effectively promotes renewable energies, and it has adequate information to develop them.</p> <ul style="list-style-type: none"> <li>• The legal amendments needed to effectively provide incentives for and promote renewable energies have been adopted.</li> <li>• A program has been adopted to promote renewable energies consistent with the results of the studies undertaken, and developed alongside the Strategic Environmental Assessment (SEA) performed on the renewable energy sector.</li> <li>• The multicriterion identification of alternative energies has been completed, including environmental and social sustainability criteria to avoid or minimize negative impacts.</li> </ul>	<p>Incentives for renewable energies are revealed in an effective change in Panama's energy matrix.</p> <ul style="list-style-type: none"> <li>• The program to promote renewal energies has been implemented and is underway.</li> <li>• All renewable energy plans and programs to be implemented have undergone an SEA.</li> </ul>
<b>V. IMPROVEMENT OF THE ENVIRONMENTAL AND SOCIAL MANAGEMENT OF ENERGY PROJECTS</b>				
Improve environmental management of energy plans, programs and projects, by adopting adequate tools and safeguards to streamline resolution and environmental licensing.	Although ANAM has regulations on this subject, conflicts between entrepreneurs and NGOs have delayed the development of energy projects.	<p>Process to improve environmental and social management in the energy sector.</p> <ul style="list-style-type: none"> <li>• The authorities have adopted the Strategic Environmental Assessment (SEA) as a tool to be applied during the design, preparation, and evaluation of the various sector development plans and programs, including energy development.</li> <li>• Progress is made in the design and implementation of SEA guidelines.</li> </ul>	<p>Substantial progress has been made in improving environmental and social management in the energy sector.</p> <ul style="list-style-type: none"> <li>• Regulations and methodologies have been adopted to undertake the SEA.</li> <li>• An SEA has been performed on the National Energy Plan.</li> <li>• Amendments have been made to D.209-06 to improve community participation, and PES regulations have been adopted.</li> </ul>	<p>The country has effective, efficient environmental and social management in the energy sector, including PES, which contributes to timely project development.</p> <ul style="list-style-type: none"> <li>• The SEA is applied in all energy sector plans and programs that could potentially generate significant environmental and social impacts.</li> <li>• Outcome evaluation and adoption of adjustments corresponding to environmental and social safeguards in energy projects.</li> </ul>

OBJECTIVES	PROBLEM TO BE ADDRESSED	POLICY MEASURES PROGRAMMATIC LOAN I - US\$100 MILLION (FIRST QUARTER 2009)	TRIGGER MECHANISMS PROGRAMMATIC LOAN II	TRIGGER MECHANISMS PROGRAMMATIC LOAN III
		<ul style="list-style-type: none"> <li>• It has been decided to undertake an SEA on the National Energy Plan.</li> <li>• An amendment has been drafted to the Regulation on Environmental Impact Studies (D.209-06) to improve community participation.</li> <li>• A draft law has been prepared on payment for environmental services (PES) by electric power generation in Panama.</li> <li>• It has been agreed to undertake an evaluation of the social and environmental safeguards process in energy projects, including responsibility and coordination on social issues, and consideration of payment for environmental services.</li> </ul>	<ul style="list-style-type: none"> <li>• Recommendations on environmental and social safeguards have been adopted.</li> <li>• All government agencies are committed to supporting all projects that fulfill environmental and social safeguards</li> </ul>	<ul style="list-style-type: none"> <li>• The SEA is an effective tool for including new environmental and social safeguards in all energy sector plans, programs, and actions.</li> </ul>
<b>VI. IMPROVEMENTS TO REGULATORY MANAGEMENT AND INCENTIVES FOR PRIVATE PARTICIPATION IN THE ENERGY SECTOR</b>				
Improve regulatory management, enhance the credibility and accountability of the regulatory body, and increase the availability of information to boost confidence among investors and the public in the electric power market.	Lack of long-term contracting limits investment in new electric power generation projects.	Incentives to long-term electric energy contracting: <ul style="list-style-type: none"> <li>• A single bidding document has been adopted and was used in the first successful long-term energy contracting process in September 2008.</li> <li>• It has been agreed to hold a forum in 2009 to evaluate remaining shortcomings in the long-term contracting process and to discuss alternatives for change.</li> </ul>	Better incentives for long-term energy contracting: <ul style="list-style-type: none"> <li>• Adjustments have been made to overcome shortcomings in the long-term contracting process.</li> </ul>	Adequate and transparent long-term contracting system in place <ul style="list-style-type: none"> <li>• An adequate and transparent long-term contracting system is in place giving incentives to private investment in new generating projects.</li> </ul>

OBJECTIVES	PROBLEM TO BE ADDRESSED	POLICY MEASURES PROGRAMMATIC LOAN I - US\$100 MILLION (FIRST QUARTER 2009)	TRIGGER MECHANISMS PROGRAMMATIC LOAN II	TRIGGER MECHANISMS PROGRAMMATIC LOAN III
	Past interference in regulatory management has undermined the regulator's credibility. This can be improved with greater transparency and timely accountability.	<p>Improvement of regulator credibility and accountability, through:</p> <ul style="list-style-type: none"> <li>• The regulator has found adjustments and solutions to respond to the challenges involved in restoring investor confidence without undermining the interests of the consumer, consistent with the spirit of Law 6.</li> <li>• ASEP has adopted a program of electricity consumer satisfaction surveys.</li> <li>• ASEP has an agenda of short- and medium-term regulatory topics that will be made available to the public.</li> <li>• The MEF has defined a plan to apply Article 28 of the Law to undertake periodic evaluations of ASEP performance.</li> </ul>	<p>ASEP regulatory management is consolidated and the results of periodic evaluations are satisfactory</p> <ul style="list-style-type: none"> <li>• Results of the periodic consumer satisfaction survey published.</li> <li>• Independent evaluation (Art. 28) of the work of the regulator under way, with satisfactory results.</li> <li>• A plan of action has been approved to implement improvements detected in the evaluation.</li> </ul>	<p>Regulatory management of ASEP is consolidated, and the results of periodic evaluations are satisfactory.</p> <ul style="list-style-type: none"> <li>• Results of the periodic consumer satisfaction survey published.</li> <li>• Independent evaluation (Art. 28) of the work of the regulator under way, with satisfactory results.</li> </ul>
	Information on market performance that is available to the public could be improved.	<p>Better availability of electricity market information.</p> <ul style="list-style-type: none"> <li>• The CND publishes reports on market operations.</li> <li>• A summary of surveillance group reports is posted on the Internet.</li> </ul>	<p>Better availability of electricity market information.</p> <ul style="list-style-type: none"> <li>• The scope and content of the periodic reports on the functioning of the market have been expanded, and are posted on the Internet for the general public.</li> </ul>	<p>Better availability of electricity market information.</p> <p>The scope and content of the periodic reports on the functioning of the market have been expanded, and are posted on the Internet for the general public.</p>



OBJECTIVES	PROBLEM TO BE ADDRESSED	POLICY MEASURES PROGRAMMATIC LOAN I - US\$100 MILLION (FIRST QUARTER 2009)	TRIGGER MECHANISMS PROGRAMMATIC LOAN II	TRIGGER MECHANISMS PROGRAMMATIC LOAN III
<b>VII. RATIONALIZATION OF ENERGY SECTOR SUBSIDIES</b>				
Rationalize energy sector subsidies to target the poorest population groups, without disincentivizing efficient energy use.	Despite legislation on this subject, the subsidy is not well targeted on the poorest groups, either in electricity or in fuels.	<p>Actions to improve the targeting of energy sector subsidies.</p> <ul style="list-style-type: none"> <li>• The threshold consumption for users to receive contributions from the rate stabilization fund has been lowered from 1,000 kWh to 500 kWh per month.</li> <li>• It has been agreed to evaluate improvements to the targeting of energy sector subsidies on the poorest population groups.</li> </ul>	<p>Energy sector subsidies have been better targeted.</p> <ul style="list-style-type: none"> <li>• Measures have been implemented making it possible to target the subsidy on the poorest groups.</li> </ul>	<p>Energy sector subsidies have been better targeted.</p> <ul style="list-style-type: none"> <li>• Implementation of the measures has produced significant benefits for the electric power sector.</li> </ul>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE-\_\_\_/09

Panama. Loan \_\_\_\_/OC-PN to the Republic of Panama  
Energy Sector Consolidation Support Program I

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as Borrower, for the purpose of granting it a financing to cooperate in the execution of an energy sector consolidation support program. Such financing will be for the amount of up to US\$100.000.000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 200\_)

LEG/SGO/CID/IDBDOCS#1860556  
PN-L1033