

PANAMA DRAFT READINESS PLAN

INTERIM SUMMARY OF TECHNICAL ASSISTANCE PROVIDED BY THE BANK TEAM FROM JANUARY TO MAY 2009

Strategic Context

Describe the link between the proposed REDD Readiness Program and the Country Assistance Strategy or Country Partnership Strategy, and operations managed or planned by the Bank.

Panama's current Development Strategy outlines 5 Pillars corresponding to 4 objectives in the FY 2008-2010 Country Partnership Strategy. Two of these objectives link most directly to the REDD Readiness Program: (i) Reduce poverty, especially among rural poor and indigenous groups; and (ii) Improve health, nutrition and education attainment of the poor.

The principal strategies outlined in the R-Plan deal directly with capacity-building and improving livelihoods among rural poor. The IBRD Rural Productivity and the GEF Rural Productivity and Consolidation of the Mesoamerican Biological Corridor Projects, currently under implementation by ANAM and the Ministry of Agriculture, are supporting small and medium size agricultural producers and indigenous communities to improve their livelihoods by investing in improved sustainable agricultural practices and management and conservation of natural resources and biodiversity. These operations would coordinate closely with the REDD Readiness activities by identifying and improving viable alternatives to reduce and avoid deforestation, enhancing consultation and participation of rural communities, and improving livelihoods.

Technical Assistance Provided by Bank

Record the assistance and/or comments on R-Plan drafts provided by Bank staff to the REDD Country Participant and if and how this assistance helped shape the R-Plan and if and how these comments were taken into consideration in the latest R-Plan submitted by the REDD Country Participant. Please point to possible disagreements between the REDD Country Participant and the Bank.

The Bank provided one set of comments on an early January draft of the Readiness Plan: January 20; and four sets of comments to the March draft of the Readiness Plan: March 21, March 24, and April 9 (all comments are available on request).

The Bank also conducted 3 technical missions to Panama (November 2008, February 2-4, 2009 and May 21-22, 2009) to assist ANAM in the preparation of the Readiness Plan and review such issues as their proposed National REDD strategy, the consultation and outreach plans, environmental and social safeguards and institutional arrangements for the implementation of the strategy and execution of the FCPF grant. The May mission also included a discussion with ANAM of the most recent version of the R-Plan submitted to the FCPF (May 16, 2009).

An additional technical mission is still required for the Bank to assess compliance with social and environmental safeguards, evaluate the fiduciary capacity of ANAM to execute the FCPF grant, and finalize the Bank's Assessment of the proposed Readiness Plan. While the Bank recognizes the effort and quality of the work dedicated by ANAM to complete the R-Plan document, the above mentioned revisions identified a number of areas that require further improvement before the Bank, acting as trustee of the FCPF, can sign a grant agreement. The main suggestions of these revisions are summarized below:

Interim Summary of Technical Assistance Provided by the Bank Team

Causes of Deforestation. The diagnosis of the underlying problems causing deforestation and degradation in Component 1 is lacking detail, and there is little explanation of the reasoning behind the strategies proposed to address them. Component 3 on Design of the REDD Strategy mostly recapitulates the other sections of the R-Plan rather than providing potential concrete actions to actually reduce emissions from deforestation and forest degradation. The principal strategies to reduce environmental degradation suggested in the R-Plan include new “environmental businesses” and environmental education. Promoting “environmental business” without a clear understanding of their impact on reducing deforestation and degradation may result ineffective. In conversations ANAM has responded to these criticisms in three ways. First, with regards to assessing the drivers of deforestation, ANAM believes drivers should be assessed in more detail within the preparation (“Readiness”) phase, as part of the reference scenario (Component 7). Indeed, Component 7 of Panama’s R-Plan dedicated to the reference scenario does provide a fairly comprehensive strategy for assessing the historical causes of deforestation. However, the R-Plan guidelines provided by the FCPF Secretariat lay out a framework under which one of the two components that should be completely developed for the R-Plan is the “Land use, forest policy and governance quick assessment” (the other is the Consultation plan). With reference to these guidelines, Panama should have already conducted an assessment of the drivers of deforestation at the present. Second, ANAM has stated that environmental degradation ought to be addressed in a holistic manner, and deforestation cannot be separated from other environmental and social issues. This holistic approach should be clearly outlined in the R-Plan, including the roles of other ministries and agencies and a description of how deforestation fits into the framework.

Third, with regards to strategies to address deforestation and degradation, ANAM has stated its opinion that the reduction in deforestation rates over the past 5 to 10 years in Panama provide evidence that the strategies they have utilized, in particular environmentally-friendly business and community investment, have worked. However, correlation is not causation; it is possible that the reduction in deforestation could be due to any number of social or economic factors that have little to do with ANAM’s environmentally-friendly business strategy. It would be impossible to know this without further analysis. In the absence of such an analysis, the R-Plan should at a minimum provide logical hypotheses about how deforestation has been reduced and terms of reference (ToR) for a more detailed analysis. ANAM should look critically at its plan to utilize “environmentally-friendly businesses,” as experiences in other parts of the world show that in some cases they are not as effective as directly addressing the causes of deforestation. The R-Plan should provide analysis or evaluation, or ToRs for analysis or evaluation, of the effectiveness of these strategies, and suggest alternatives if these strategies are deemed ineffective in fighting environmental degradation in general and deforestation and forest degradation in particular.

Recommendation: Provide more detail about the principal drivers of deforestation and forest degradation and how they operate on national and local levels (Component 1). This should consider cross-sectoral issues such as agricultural expansion and population dynamics, large investment projects (e.g. mining, hydropower, tourism), land tenure, etc. Use these drivers to identify specific strategies to reduce emissions from deforestation and forest degradation (Component 3). Cite the relevant literature that supports ANAM’s thinking. If the scientific analysis is yet to be conducted, present logical connections and hypotheses about how deforestation currently works and how it will be addressed by the proposed strategies, and present alternative strategies.

Deforestation Hot Spots. There is no discussion about geographic hot spots of deforestation. ANAM, with CATHALAC, has recently conducted a new study of forest cover, and will be assessing geographic areas of deforestation.

Recommendation: Provide some discussion and focus on areas where most deforestation is occurring and the particular drivers that are most relevant in each area.

Policies, Land Tenure Issues and Other Cross-Sectoral Aspects. Directly tied to the above points, there is no critical discussion of policies in the forest sector and other cross-sectoral policies that affect forests. There is no discussion of actions to reverse policies that provide perverse incentives that favor deforestation. Similarly, there is no discussion of land tenure issues, how they affect deforestation and degradation or how they might be improved. There is no discussion about how other development objectives, such as policies to promote large investment projects (e.g. hydroelectric dams, mining and tourism developments), will affect forests and REDD. To date, it is not clear how much consultation has been conducted with other governmental agencies that might influence these policies and cross-sectoral aspects, or what obligations these agencies will assume under the R-Plan. ANAM has responded that the readiness process cannot be expected to solve all Panama's political and institutional problems. From its perspective, ANAM aims to address the issues over which it has the most control. Nevertheless, the R-Plan should address relevant cross-sectoral aspects, such as agricultural policy and development programs, land tenure, infrastructure development, mining policy, etc.

Recommendation: Present well crafted Terms of Reference able to guide the process for review of forest and land use policies, legislation and institutional reforms such as those mentioned in generic terms in Component 1 of the R-Plan. The Terms of Reference may also need to propose reviewing land tenure, property rights, deed regulations that as described in the R-Plan apparently allows opportunities for land speculation and also reviewing the soundness of policies and regulations related to mining, urbanization and tourism infrastructure development. Clarify the government's position on hydroelectric dams and other infrastructure, and their relation to forests and REDD.

REDD Steering Committee. ANAM should be recognized for aspiring to involve a broad array of stakeholders in the REDD Steering Committee (Component 2a). Indeed, all of the actors mentioned will be important for implementing a successful REDD strategy. However, the R-Plan does not clearly explain how these groups/representatives will interact. Will the Steering Committee act as a decision-making body, or as an extension of consultations? It is important that the Steering Committee become operational quickly to help guide the preparation ("readiness") process. To date, it seems that the R-Plan has been guided exclusively by ANAM. In addition, there are a few important stakeholders left out of the Committee, such as *campesino* community representatives.

Recommendation: Provide an explanation of how the REDD Steering Committee will operate during the preparation ("readiness") process.

Consultation Plan. The Consultation plan (Component 2b) outlines activities that are mostly informative rather than consultative, including an environmental education campaign and training. Education, training and informational activities are important to create environmental and institutional awareness and can complement consultations. However, education is not consultation, nor does it reduce the need for participatory consultation. The Component 2b sub-section labeled "Public Consultation" appropriately stresses the need for inputs and participation from various sectors of society. It is clear from the R-Plan that ANAM's leadership does value participation from society and wants REDD to be an open process. However, the R-Plan does not explain how the consultation process will be conducted or provide any specific methodology for feedback or input from outside groups.

With regards to consultations to date, COONAPIP, an umbrella organization with representation from leaders of all seven Panamanian indigenous tribes has recently stated its opinion that ANAM's meetings

Interim Summary of Technical Assistance Provided by the Bank Team

to date with indigenous groups about REDD have been informative rather than consultative, and that the Consultation Plan in the R-Plan is not adequate to address their concerns. ANAM has responded that methodologies are in place for feedback through their standard consultation processes, future consultation will be ongoing, and that the activities in the R-Plan are preparatory and do not require consultation.

Recommendation: The Consultation Plan component of the R-Plan should consider a broad and inclusive participation of all relevant stakeholders. It should also be based on a methodology that is pertinent to enhance social participation and to elicit good feedback from the participants. Appropriate language and other culturally-appropriate methods should be used. Participants should be informed of the importance of the inputs and how they will be utilized, and when and how they will be able to access information and under which format. All concerned stakeholders, especially forest communities, should feel assured at this stage that there will be adequate fora for expressing their support, criticisms, concerns, or opposition. Consultations should cover both sides (potential positive and negative impacts) of REDD and allow communities to discuss difficulties. Consultation should be viewed as an iterative process, not a one-time event. This Consultation Plan would be outlined with inputs of stakeholders as described in the first phase of the Strategic Social Assessment below. It would then be strengthened later with inputs from the second phase of the Strategic Social Assessment.

Strategic Environmental and Social Assessment (SESA). Component 5 should explicitly include all the elements required by the World Bank Safeguard Policies (especially on Environmental Assessment, Forests, Natural Habitats, Indigenous Peoples and Involuntary Resettlement). Before approving the Readiness Preparation Grant, the first phase of a Strategic Environmental and Social Assessment (SESA) must be completed. It includes an initial analysis of environmental and social context, with expected outcomes, opportunities and risks related to the program, and it is informed by consultations with representatives of key stakeholder groups, which should include, among others, the indigenous leaders of COONAPIP. The objective of the first phase is to finalize Terms of Reference for the second, more detailed phase of the SESA, through consultation and analysis in a transparent manner.

The second phase of the SESA (i) continues and completes the diagnostic work required, including a more structured and detailed stakeholder analysis; (ii) undertakes a transparent consultation process involving representatives of key stakeholders and interest groups, in particular indigenous peoples and forest dwellers, based on the principles of free, prior and informed consultation, seeking to build broad community support among concerned groups; and (iii) finalizes environmental and social management frameworks as components of the R-package. These frameworks incorporate procedures for ongoing consultations with concerned stakeholder groups; capacity building measures as needed; and procedures for project specific environmental and social impact assessments and action plans.

Ownership of Carbon Rights. While ANAM asserts government ownership over carbon rights, this may be a contentious issue with various sectors of society. The environmental legislation also leaves room for interpretation.

Recommendation: This is an issue that the Government of Panama will have to work out, and a more detailed legal review ought to be carried out. Our principal recommendation is that the government be open and responsive to concerned stakeholders, including communities and private landowners.

Monitoring, Reporting and Verification of Carbon Stocks. The discussion of monitoring is arguably satisfactory, although there are some technical and methodological improvements/adjustments that might be made as the work progresses. Furthermore, there is very little discussion of reporting and verification.

Interim Summary of Technical Assistance Provided by the Bank Team

The R-Plan suggests a lot of effort and funding for biological diversity monitoring, without specifying why this is, *a priori*, critical for REDD.

Recommendation: Provide a framework of reporting and verification that includes a more detailed discussion on how external reviews/audits would actually work (mandate, methodologies, reporting process, publicity, periodicity, etc), whether it would cover carbon and non-carbon benefits, as well as the use/sharing of REDD benefits; how information will be made available to the public; and how civil society and forest communities will actually be involved in implementing the monitoring, reporting and verification systems. Explain why biodiversity monitoring is so crucial to REDD. Investing REDD money in monitoring biodiversity (a co-benefit, not a direct objective of REDD) may be a good idea in Panama, but it should be explained.

Transition to the new administration. With the recent election, a new government, including new leadership at ANAM, will take office in July. Steps should be taken to ensure continuity of the process and buy-in of and ownership by the new government administration.

Recommendation: Inform and consult with the transition team. Explain that the R-Plan and readiness is a work in progress and request confirmation of the overall approach.