PROJECT PERFORMANCE ASSESSMENT REPORT

PANAMA

Panama: First, Second, and Third Programmatic Fiscal Management and Efficiency of Expenditures Development Policy Loan

Report No. 168515
MAY 2, 2022
PROJECT PERFORMANCE ASSESSMENT REPORT

Panama

First Programmatic Fiscal Management and Efficiency of Expenditures
Development Policy Loan
(IBRD-80400)

Second Programmatic Fiscal Management and Efficiency of Expenditures
Development Policy Loan
(IBRD-80400, IBRD-82390)

Third Programmatic Fiscal Management and Efficiency of Expenditures
Development Policy Loan
(IBRD-82390, IBRD-83330)

May 2, 2022

Human Development and Economic Management

Independent Evaluation Group
Abbreviations

DPL development policy loan
GDP gross domestic product
IMF International Monetary Fund
OECD Organisation for Economic Co-operation and Development

All dollar amounts are US dollars unless otherwise indicated.

IEG Management and PPAR Team

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This report was prepared by Željko Bogetić, with support of Robin R. Kelley and Amshika Amar, consultants. The report was peer reviewed by Ricard Stern and Felix Oppong and panel reviewed by Emmanuel Akpa. Dung Thi Kim Chu provided administrative support.

Note: IEG = Independent Evaluation Group; PPAR = Project Performance Assessment Report.
Contents

Abbreviations .......................................................................................................................... ii
Data ........................................................................................................................................ v
Summary ................................................................................................................................ viii
1. Background, Context, and Design ......................................................................................... 1
   Background and Context ......................................................................................................... 1
   Objective, Design, and Financing .......................................................................................... 3
   Results: What Worked? .......................................................................................................... 7
   Tax Transparency, Debt Management, and Social Transfer Programs .............................. 7
   Results: What Didn’t Work? ................................................................................................... 8
   Increasing Tax Revenues, Deepening Domestic Debt Market, and Strengthening Procurement ............................. 8
   Design and Preparation ......................................................................................................... 9
   Implementation and Supervision .......................................................................................... 10
3. Lessons ................................................................................................................................ 12
Bibliography ............................................................................................................................. 14

Boxes
Box 1.1. Policy Pillars and Prior Actions in the Development Policy Operation Programmatic
Series ........................................................................................................................................ 4
Box 2.1. Considering Two Counterfactuals: Tax Revenues and Social Safety Nets ............... 11

Figure
Figure 1.1. Reconstructed Theory of Change of the Panama Development Policy Loan Series... 6

Appendixes
Appendix A. Ratings .................................................................................................................. 18
   Panama—First (P123255), Second (P127332), and Third (P146942) Programmatic Fiscal
   Management and Efficiency of Expenditures Development Policy Loans .............................. 18
Appendix B. Methods and Evidence ......................................................................................... 32
Appendix C. Objectives and Policy Areas ............................................................................... 33
Appendix D. Links between Prior Actions and Analytical Underpinnings........................................36
Appendix E. Panama’s Sovereign Credit Ratings..............................................................................37
Data

This is a Project Performance Assessment Report by the Independent Evaluation Group of the World Bank Group on the First Programmatic Fiscal Management and Efficiency of Expenditures Development Policy Loan (P123255), Second Programmatic Fiscal Management and Efficiency of Expenditures Development Policy Loan (P127332), and Third Programmatic Fiscal Management and Efficiency of Expenditures Development Policy Loan (P146942). This instrument and the methodology for this evaluation are discussed in appendix B. Following standard Independent Evaluation Group procedure, the draft Project Performance Assessment Report was shared with relevant government officials for their review and comment. No comments were received from the borrower.

First Programmatic Fiscal Management and Efficiency of Expenditures Development Policy Loan (P123255)

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Summary

Background

During the past two decades, up until the coronavirus (COVID-19) crisis, Panama was one of the best-performing Latin American economies in growth and macroeconomic stability and was a popular destination for foreign investment. In 2018, Panama achieved high-income status and now has the highest per capita income in Latin America. However, many were left behind. Rural poverty, especially among the indigenous population, is as much as six times higher than in urban areas.

World Bank engagement in Panama resumed in 2009–10 after the global financial crisis and was focused on poverty, inequality, and the indigenous population. The World Bank had attempted a dialogue on these issues before but without success. However, after elections, common ground was found on the need to center World Bank engagement in relation to a poverty reduction agenda, including reform of social safety nets. At the same time, international tax transparency emerged as a critical issue that threatened to undermine the image of Panama as an international financial center, leading the government to approach the World Bank for support in responding to international concerns. The World Bank also sought to support procurement reform because of concern over transparency and corruption in public sector purchases. The policy agenda supported by the development policy loan (DPL) series coalesced into four policy areas or pillars: mobilizing domestic tax revenue and increasing transparency, modernizing public sector procurement practice, improving the institutional arrangements for debt management, and expanding and strengthening social transfer programs.

Results: What Worked and Why?

Tax Transparency, Expansion and Better Targeting of Social Transfer Programs, and Improved Debt Management

International tax transparency has seen some improvement. Despite a few setbacks, Panama today has a more transparent and more compliant international tax system than before the series, featuring a wide range of international agreements for exchange of tax information. This is partly a result of reforms and steps taken since the first operation in the DPL series. This agenda benefited from its priority status in government reforms, which was prompted by external perceptions of and pressures on Panama’s transparency in international taxation and related monitoring and reporting by international organizations. However, despite progress started under the DPL series, Panama is not yet there in transparency. It slid back onto the European Union’s tax
haven blacklist in 2018 for several issues, including not meeting tax transparency standards.

The series contributed to a substantial expansion and better targeting of social transfer programs in Panama. Reform substantially improved the targeting by the Red de Oportunidades cash transfer program of the poorest families through the use of proxy means tests. It also helped improve 100 a los 70 program targeting of noncontributory pensions for retirees living in poverty and in vulnerable conditions. It also led to a new program, Beca Universal, of scholarships for impoverished students in secondary schools, which contributed to building of their human capital. Finally, it helped introduce the Ángel Guardián program for impoverished individuals with disabilities. In this regard, the series contributed to greater social inclusion of disadvantaged indigenous groups. The World Bank’s 2015 Systematic Country Diagnostic attributes about half the reduction of extreme poverty in Panama during 2007–13 to the introduction and the subsequent expansion and improved targeting of its cash transfer programs.

Panama’s institutional arrangements for public debt management also improved substantially. The series resulted in the modernization of the debt management office and its key functions. Before the series, Panama had only rudimentary debt management functions, with no modern front and back offices and no medium-term debt strategy with the assessment of fiscal risks. Although public debt management had not posed a problem in the past because Panama enjoyed easy and low-cost access to external financing, it represented a source of vulnerability in a scenario of major market turbulence. Contributing to the success in improving debt management was government interest, especially by officials who joined the Ministry of Economy and Finance from the private sector, and accompanying technical assistance provided by the World Bank Treasury. With improved debt management institutions and continued strong fiscal management and moderate debt, Panama’s sovereign credit rating improved during the life of the series and has since remained at investment-grade level (appendix E).

**Results: What Didn’t Work and Why?**

**Increasing Tax Revenues, Deepening Domestic Debt Market, and Strengthening Procurement**

Despite strong growth, tax revenues as percent of gross domestic product did not increase and, in recent years, declined below their 2010 level. The DPL series aimed to increase tax revenues from about 11 percent to about 13 percent of gross domestic product over 2010–14, but the ratio remained unchanged during that time and then gradually declined. The DPL’s prior actions focused on expanding the tax base, raising
value-added tax rates, and eliminating exemptions. These actions temporarily resulted in increased revenues, but these were not sustained. Elimination of tax exemptions proved more difficult than envisaged. Exogenous factors, including a drop in oil prices and import revenues and lack of broader political support for tax reform, affected this outcome. The offshore company activities still do not contribute to the tax base, despite some reforms. The supreme court ruled the reorganization of the General Revenue Directorate of the Ministry of Economy and Finance into an autonomous agency, which would have strengthened its authority and capacity to increase tax revenues, unconstitutional. This resulted in the revenue authority’s loss of capacity and independence and in the loss of momentum for tax reform. Moreover, motivation for the government to increase tax revenue was diminished by the considerable and reliable non-tax revenues from the Panama Canal and the low fiscal deficit and public debt. Tax transparency reform supported by the DPL series was driven by international tax issues associated with Panama’s compliance with Organisation for Economic Co-operation and Development and Financial Action Task Force–Groupe d’Action Financière standards.

Domestic debt market deepening did not happen as expected. Despite the establishment of a primary dealer market (a prior action under this pillar), the secondary market for domestic government debt never took off. The domestic debt market was meant to provide a buffer against international market turbulence to which Panama, as a highly open economy integrated into the global financial markets, was exposed. However, Panama continued to enjoy stable, low-cost, and easy access to international market financing, which underpinned the government’s preference for international financing and its weak commitment to the development of a domestic debt market. The government has issued some domestic debt but in far smaller quantities than expected.

The use of an e-procurement platform has not led to sustained improvement and broader efficiency gains. Although there was an increase in the coverage of goods and services using the PanamaCompra e-procurement system, evidence shows that it has neither been sustained nor led to cost savings (World Bank 2016b). This outcome was, in part, the result of a fire that destroyed the General Directorate of Public Procurement in May 2013, during the implementation of the third DPL operation in the series.

**Design and Preparation**

The series focused on several development issues of particular importance at the time of design and preparation. A perceived lack of tax transparency became a threat to Panama’s business model. Inefficiency of public procurement has been a long-standing issue, which resulted in costly and nontransparent public sector purchases of goods and services. Panama also continued to face entrenched and deep poverty among the indigenous population and Afro-descendants against only limited social safety nets;
greater coverage and improved targeting was sorely needed. Although improving debt management, developing the domestic debt market, and raising tax revenues were not a high priority for the government, attention to them by the World Bank was part of a longer-term financial and fiscal resilience agenda.

The series reflected lessons from past experience and contributed to the World Bank’s strategic objectives in Panama and Panama government’s goals. The series reflected lessons from the World Bank’s previous Country Partnership goals with Panama (2008–10), which emphasized the importance of analytical underpinnings and synergies among a mix of instruments (World Bank 2007a, 2010a). Strong analytics informed the series, which included an influential poverty assessment (World Bank 2011a) and technical assistance, including on debt management and social protection. The theory of change was generally clear, linking inputs to outputs and outcomes that could be reasonably expected to contribute to the Country Partnership Strategy strategic goals. This was especially the case with respect to the series’ social safety net policy pillar, which aimed for improved targeting of the main social safety net program for impoverished people, Red de Oportunidades; the cash transfer program for the older impoverished and vulnerable people, 100 a los 70; and the establishment of a program providing secondary school scholarships to students from impoverished families. These could all be reasonably expected to contribute to a wider and better-targeted social safety net and higher incomes for impoverished people.

Most prior actions were broadly relevant and well situated within results chains, albeit a few were too ambitious and complex in context. Rooting the international tax transparency actions in the Global Forum on Transparency and Exchange of Information for Tax Purposes peer review process helped Panama address the causes of the European Union blacklisting and the emerging impact on Panama’s reputation as a destination for foreign investment. On debt management, the preparation of the first debt management strategy with assessment of fiscal risks and the creation of a modern debt management office was expected to better prepare the country for fiscal challenges under adverse external and domestic conditions. However, a number of subactions designed to increase government domestic revenues assumed that policy and institutional actions alone would suffice to deliver results in a relatively short period of time. This proved to be inconsistent with limited capacity, large turnover of personnel, organizational changes, and opposition to increasing government revenues that should have been evident at the time. Similarly, prior action on procurement reform targeting the implementation of the PanamaCompra 2.0 platform failed to address the main constraint to cost savings, which was the corruption that permeated public (and private) sectors.
In the face of an ambitious revenue target and politically challenging reforms, risk to the implementation of tax reform was not adequately recognized. Increasing tax revenues by 2 percentage points of gross domestic product, which was a target under the first pillar, was unrealistic given the complexity of the reforms, which sought to broaden the base, eliminate exemptions, and increase rates in the face of strong political headwinds both inside and outside government. This was not adequately recognized by the World Bank in program documentation.

Implementation

Reforms to social protection, debt management, and, to some extent, international tax transparency were well implemented. Important results and policy improvements in social protection and debt management were supported by parallel technical assistance. As a result of these improvements, Panama has a broader and better-targeted social safety net than before the series and stronger debt management capacity. In international tax transparency, Panama has made progress, including by signing the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting in 2017 and signing 67 automatic exchange of information agreements with other countries by 2021.

Several factors adversely affected implementation. Implementation was affected by frequent and large turnover of technical staff in government agencies and also the fire that destroyed the building that housed the public procurement and debt management offices. In addition, the supreme court ruling on the reorganization of the General Directorate of Revenues as unconstitutional directly impeded implementation of tax reform and weakened the independence and capacity of tax administration. However, external pressure for greater international tax transparency was a positive force for reform of tax transparency, and the World Bank’ strong coordination with the Inter-American Development Bank contributed to close monitoring and implementation.

Lessons

This assessment offers the following lessons:

- Development policy financing design requires realism and clarity about risks to implementation. This entails clearer articulation of the results chain that links prior actions to desired outcomes. For Panama, a closer examination of the results chain would have highlighted the ambition some of the targets and drawn into question their feasibility over the operation’s time period.

- Social protection reform in Panama was a matter of political will rather than resource availability. This is evident in the substantial expansion and better
targeting of social protection, without increases in government revenue, suggesting that government revenue was, in fact, not the binding constraint nor a necessary condition for the strengthening of social protection.

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Independent Evaluation Group
1. Background, Context, and Design

Background and Context

1.1 During the past two decades, up until the coronavirus (COVID-19) crisis, Panama has been one of the best-performing Latin American economies. Panama has achieved high growth, macroeconomic stability, and poverty reduction and has become an investment-grade destination for foreign investments, international banking, and logistics. During 2001–13, real annual economic growth averaged over 7 percent, driven by large public and private investments in logistics and construction and domestic consumption. Growth slowed in the 2014–19 period to 4.7 percent but remained much higher than in the Latin America region. Growth of real incomes of the bottom 40 percent exceeded that of the mean income. As a result, overall poverty fell significantly, measured by the upper-middle-income countries’ poverty line ($5.5 per person, per day), from over 20 percent in 2012 to about 16 percent in 2014, and 12 percent in 2019. And yet, as a highly open, small economy, Panama remains vulnerable to changes in international market sentiment. Prudent fiscal management resulted in stable revenue and moderate public debt, and a stable financial sector, underpinned by a fully dollarized economy, helped Panama maintain easy access to low-cost, long-term financing and foreign investment. In 2018, Panama achieved high-income level (IMF 2020).

1.2 Despite this success, some were left behind. Rural poverty, especially among the indigenous population, is as much as six times higher than in urban areas. Youth unemployment remains high, and many indigenous communities continue to lack access to basic public services. Extreme poverty remains concentrated in comarcas, where many indigenous peoples live, and among Afro-descendants, and there are data gaps that impede the effective reduction of poverty of these groups. Although it declined in recent years, inequality of incomes (and wealth) remains among the highest in the world. Social safety mechanisms remained limited, with low coverage and inefficient targeting of impoverished people (World Bank 2021c).

1.3 Panama’s tax revenues remain well below regional and income group benchmarks, especially in view of the need to expand social spending. The tax–to–gross domestic product (GDP) ratio is among the lowest in Latin America as the presence of nontax revenues of about 10 percent of GDP from the Panama Canal reduced the incentives of government to increase tax revenues. The tax system is characterized by a narrow base and many exemptions, and the World Bank and the International Monetary Fund (IMF) identified selective taxation of consumption goods–tax revenues as a bottleneck that held back adequate and sustainable financing of basic social services and the much-needed expansion of the social safety net (World Bank 2011a, 2011b; IMF 2012). In addition,
Panama’s territorial regime has allowed the thriving offshore sector to be exempt from domestic taxation.

1.4 The political and international context for this development policy loan (DPL) series is important. Panama’s inclusion in the Organisation for Economic Co-operation and Development (OECD) “gray list” of countries with inadequate international tax transparency frameworks threatened to undermine Panama’s international standing as a financial and business center and a destination for foreign investment. The OECD blacklisted Panama in 2010 on account of concerns with tax transparency and potentially illicit tax practices. This raised the possibility that OECD members could block Panama’s access to financing from multilateral financial institutions, which could have affected its international credit rating. Panama was also sanctioned by the World Bank Group in 2012 for lack of tax transparency, which essentially blocked International Finance Corporation structured finance through Panama for Latin America. As a result, the government sought the support of the World Bank to address the concerns raised. An OECD assessment in 2016 took place in the context of the publication of the Panama papers. The Panama papers provided considerable negative publicity, further motivating the government to address concerns. Thus, by 2019, Panama was no longer in noncompliant status with international standards. Panama has also signed nine tax information exchange agreements and is negotiating additional agreements with other countries (OECD 2019).

1.5 It is in this context that the government and the World Bank entered a dialogue on support for a possible reform program. This dialogue coalesced in relation to a public sector reform agenda focusing on four issues: (i) tax revenues and transparency, (ii) debt management, (iii) procurement, and (iv) social safety nets. The government had particular interest in the first policy area, where the agenda on international taxation was driven by the Global Tax Forum (OECD 2010), and in debt management. Although the World Bank had not traditionally been involved with supporting reforms related to international tax treaties, the World Bank agreed to include it in the policy dialogue. At the same time, the World Bank strongly advocated for reforms in procurement and social safety nets. Reforms under discussion were based on prior analytical work in the areas of debt management (World Bank 2007b, 2010b), public expenditures (World Bank and IDB 2006), and a poverty assessment (World Bank 2011a).

1.6 More recently, the COVID-19 pandemic, with its global impact on trade, transport, and logistics, hit Panama especially hard, shifting government priorities. The pandemic resulted in a 17.9 percent drop in real GDP in 2020 and a 21 percent drop in government revenues. In addition to a significant human toll, income poverty increased from 12.1 percent to 14.7 percent, reversing the gains from the past several years. Despite a sharp drop in revenues, the government sought to maintain social spending to cushion the impact on aggregate demand and vulnerable groups. COVID-19 has reaffirmed the
relevance of key elements of the World Bank–supported policy agenda, including low tax revenues and the need for strong and well-targeted social safety net.

Objective, Design, and Financing

1.7 Panama after the global financial crisis provided an opportunity to make progress on earlier World Bank concerns with poverty, inequality, and the indigenous population. The World Bank had attempted a dialogue on these issues before 2010 without success. In 2011, it carried out a poverty assessment, which proved an important analytical input to this DPL series under the Martinelli government elected in 2009 (World Bank 2011a). Although the government was most interested in World Bank support on debt management and the emerging issue of international taxation, the World Bank pressed for the reform of social safety nets and for the reform of procurement, which had been a source of public sector corruption.

1.8 The series had four development objectives to (i) increase fiscal space and strengthen fiscal management, (ii) enhance transparency, (iii) improve efficiency of public spending, and (iv) strengthen social programs (appendix A; World Bank 2011b). These objectives were pursued through prior actions (box 1.1) in the following areas: mobilizing domestic tax revenue and increasing tax transparency, modernizing public sector procurement practice, improving the institutional arrangements for debt management, and expanding and strengthening social transfer programs (World Bank 2016b).

1.9 The objectives of the DPL series were directly related to the priorities in Panama’s five-year plan (2010–14) and the World Bank’s Country Partnership Strategy for 2011–14 (World Bank 2010a). The objectives supported two out of three World Bank’s Country Partnership Strategy goals (enhanced public sector transparency and efficiency and greater opportunities for all) and supported two objectives of the World Bank’s Country Partnership Strategy for 2015–21 (higher growth through stronger fiscal management and greater inclusion).

1.10 Despite gradual past reform, there was a need to increase efficiency and transparency in procurement platforms, particularly for large government purchases. The World Bank had noted that PanamaCompra did not include key functionalities needed for an efficient procurement management tool and did not cover large purchases. The World Bank, therefore, recommended measures to improve coverage, simplify processes and requirements that contributed to procurement delays, implement a single database of suppliers and a unified goods catalog, ensure greater use of international procurement for certain items, and strengthen monitoring and evaluation of procurement (World Bank and IDB 2006).
Box 1.1. Policy Pillars and Prior Actions in the Development Policy Operation Programmatic Series

Mobilizing domestic tax revenue and increasing tax transparency:
- Elimination of tax exemptions to widen the tax base
- Creation of a tax tribunal to resolve disputes between taxpayers and the tax authority and establish institutional arrangements to improve compliance among large taxpayers
- Signing of tax information exchange agreements to empower the tax authority to obtain information regarding the ownership of bearer shares

Modernizing public sector procurement practice:
- Introduction of the e-procurement platform, PanamaCompra
- Publication of procurement framework agreements to increase savings in terms of time, price, and transaction costs
- Creation of regulatory measures to improve the processing of high-value and complex procurement contracts

Improving the institutional arrangements for debt management:
- Issuance of treasury notes and establishment of a primary dealer program to expand the domestic debt market
- Reorganization of the debt management office to bring it in line with international best practices
- Preparation and publication of public debt evaluation reports assessing market risks
- Modification of contracts with international credit risk agencies so that Panama’s sovereign bonds could be rated

Expanding and strengthening social transfer programs:
- Expansion of the coverage of the conditional cash transfer program Red de Oportunidades starting in 2006
- Creation of new social transfer programs, including the noncontributory old age pension program 100 a los 70, the cash transfer program to children for school grade achievements called Beca Universal, and the program Ángel Guardián that provides social assistance to people with severe disabilities who live in poverty or are considered to be in vulnerable condition
- Improvement of targeting mechanisms for social transfer programs through the use of proxy means tests, harmonization of information, and the recertification of beneficiaries

Note: For details of all prior actions, see table A.2.

1.11 Because Panama had a moderate debt burden and easy and low-cost access to financing, it maintained only rudimentary debt management capacity and had no medium-term debt strategy. Although not a constraint in good times, this could become a major issue if market conditions deteriorated or Panama experienced a major macroeconomic shock. Building debt management capacity was viewed as necessary for Panama to be able to respond to such events. The World Bank recommended increasing
the share of domestic debt (that is, domestically issued, as Panama was fully dollarized) to lower the exposure to international capital markets. To that end, the World Bank recommended that the government prepare a comprehensive debt management strategy based on detailed cost-risk analysis and regular production of risk assessment reports (World Bank 2007b). Subsequently, the World Bank formulated a related, nonlending technical assistance program comprising (i) strengthening the functionality of the middle office and (ii) developing and implementing a plan to promote domestic debt market development (World Bank 2010b).

1.12 The World Bank’s poverty assessment showed that the social safety net in Panama was inadequate and needed expanding and better targeting (World Bank 2011a). In particular, the assessment identified the need to expand the coverage of the government’s flagship antipoverty program (Red de Oportunidades), improve targeting, and increase schooling of the children of impoverished households to increase their chances of building human capital and social mobility. A World Bank survey on disability and poverty, conducted as part of the poverty assessment (World Bank 2011a), informed the design and implementation of the government programs 100 a los 70, the cash transfer program for the older impoverished and vulnerable people, and Ángel Guardián, a program for support to impoverished people with disability.

1.13 Most prior actions were well situated within coherent results chains, although a few were too ambitious and complex in context (see figure 1.1 and appendix A for details). The broad conceptual idea was that the first operation in the DPL series would initiate reforms with significant legislative content and other catalytic reform actions, and the subsequent operations would implement the regulations and actions. Rooting the international tax transparency actions in the Global Forum on Transparency and Exchange of Information for Tax Purposes peer review process aimed to address the causes of the OECD blacklisting and the emerging impact on Panama’s transparency and reputation as a destination for foreign investment. On debt management, the preparation of the first debt management strategy with assessment of fiscal risks and the creation of the modern debt management office were expected to strengthen the institutions of debt management and better prepare the country for fiscal challenges under adverse external and domestic conditions.

1.14 Prior actions to support tax revenue mobilization assumed that policy and institutional actions alone would suffice to deliver results in a relatively short period of time (appendix A). This proved to be incorrect, given limited technical capacity, large turnover of government personnel, organizational changes, and opposition to increasing government revenues. Similarly, the prior action on procurement reform targeting the implementation of the PanamaCompra 2.0 platform was a largely technical response that did not address the major underlying problem behind procurement shortcomings of corruption in the public (and private) sectors.
Figure 1.1. Reconstructed Theory of Change of the Panama Development Policy Loan Series

<table>
<thead>
<tr>
<th>World Bank Group inputs and activities</th>
<th>Policy areas and actions or outputs</th>
<th>Intermediate outcomes</th>
<th>Medium-term outcomes toward twin goals over 2–3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lending</strong>—three development policy loan operations</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Policy dialogue</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Analytical work</strong> (data, monitoring, analysis)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Partnerships and collaboration</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Mobilizing domestic tax revenue and increasing transparency</td>
<td>• Increasing VAT rate, eliminating many VAT exemptions, and taxing real estate transactions and dividends in the Colón Free Trade Zone.</td>
<td>• Closed tax loopholes, widened tax base, and increased revenues, transparency, and efficiency of tax administration</td>
<td>• Sustained increase in tax revenues, expanded fiscal space, and strengthened macroeconomic stability</td>
</tr>
<tr>
<td>2. Modernizing public sector procurement practices</td>
<td>• Establishing tax tribunals with magistrates and creating units for exchange of tax information.</td>
<td>• Improved transparency and governance through the use of e-platforms, with all government agencies using PanamaCompra 2.0 to receive and publish public bid offers</td>
<td>• Improved efficiency and transparency of public sector purchases</td>
</tr>
<tr>
<td>3. Improving institutional arrangements for debt management</td>
<td>• Implementing some Global Forum Peer Review phase 1 recommendations on double taxation and international tax agreements.</td>
<td>• Strengthened debt management capacity in Credito Público and deepened domestic debt market with regular issuance of treasury notes</td>
<td>• Better debt management and deeper domestic debt market as a buffer against international liquidity shocks</td>
</tr>
<tr>
<td>4. Expanding and strengthening social transfer programs</td>
<td>• Implementing new e-procurement platform, PanamaCompra (version 2.0), including a core system for publication and receipt of bidding offers.</td>
<td>• Improved incomes and opportunities of poor people through widened and improved social transfer programs</td>
<td>• Reduced barriers to human capital development of the poor, poverty reduction, and inclusion</td>
</tr>
</tbody>
</table>

**Impacts: Progress Towards the Twin Goals and SDGs: Sustained and Inclusive Growth and Poverty Reduction**

*Source:* Independent Evaluation Group staff reconstruction based on the program documents.

*Note:* SDG = Sustainable Development Goal; VAT = value-added tax.
2. What Worked, What Didn’t Work, and Why?

Results: What Worked?

Tax Transparency, Debt Management, and Social Transfer Programs

2.1 Tax transparency has seen improvements, although weaknesses remain with respect to the exchange of tax information, transparency, and taxation of the offshore sector. Despite some setbacks, the series launched measures toward greater tax transparency.² As a result, Panama improved its tax transparency legislation, including its compliance. The 2019 second-round peer review of the Global Forum on Transparency and Exchange of Information for Tax Purposes found Panama partially compliant with its requirements, reflecting substantial improvement since the 2016 noncompliant status, although it fell short of the compliance standards on international tax transparency (OECD 2019). In October 2021, Panama approved Law 254 that addressed Financial Action Task Force concerns, allowing the revenue authority to collect the necessary information from abroad and providing a legal framework for Panama’s authorities to ask companies about their operations abroad. However, the large offshore sector has remained untaxed because of Panama’s territorial principle of taxation. Panama also went back onto the European Union’s tax haven list of non-cooperative jurisdictions for tax purposes in 2018 for several issues, including not meeting tax transparency standards.

2.2 Panama’s institutional arrangements for debt management were substantially improved. The series resulted in the substantial modernization of the debt management office, which had only rudimentary functions before (that is, no modern back and front office and no medium-term strategy with a sound assessment of fiscal risks and their implications for public debt). It also led to the preparation and publication of the first medium-term debt management strategy for Panama for 2014–18. The strategy highlighted major inefficiencies in public financial management and the liquidity of domestic debt. Debt evaluation reports were published along with risk indicators. A primary dealer market for government debt was introduced and largely completed; however, it did not lead, as expected, to the development of a deep domestic debt market. Risk analysis and a risk management function were also developed.³

2.3 The series resulted in a substantial expansion and better targeting of social transfer programs in Panama. First, the series supported the government in substantially improving the targeting of the Red de Oportunidades cash transfer program for the poorest families through the use of proxy means tests and by eliminating ineligible households enrolled in the program. The cash benefit is conditional on the families sending their children to school and making regular primary health-care visits. The new
targeting formula channeled resources to people living in remote geographic areas, comprising indigenous peoples, who were previously excluded. Second, the government improved the targeting of its 100 a los 70 program of noncontributory pensions for retirees living in poverty and in vulnerable conditions. Finally, it led to the new program of scholarships for impoverished students in secondary schools, Beca Universal, which was designed to help keep those students from dropping out, improving their chances of being able to exploit opportunities in the labor market on graduation. This program was expanded to include grades 1 to 6 of all the borrower’s public schools. It achieved 70 percent coverage of children from poorest households in the lowest-income quintile. The Ángel Guardián program for individuals with disabilities was also introduced.

2.4 The World Bank’s Systematic Country Diagnostic attributes about half of the reduction of extreme poverty in Panama during 2007–13 to the introduction and the subsequent expansion and improved targeting of its cash transfer programs (World Bank 2015e). Secondary school enrollment in Panama increased from 70 percent in 2010 to 78 percent in 2021, with much of this happening during the period of the series approval and closing (2011–15). The DPL series supported cash transfer programs where money was given to the mother because the money was better used compared with when it was given to the father, considering endemic male alcoholism in the indigenous communities.

Results: What Didn’t Work?

Increasing Tax Revenues, Deepening Domestic Debt Market, and Strengthening Procurement

2.5 Despite strong growth, the tax revenue–to–GDP ratio did not increase as anticipated and, in fact, declined in recent years. The DPL series aimed to increase tax revenues from about 11 percent to 13 percent of GDP over the 2010–14 period, but the ratio remained unchanged. Although some short-term gains were initially achieved in value-added tax, income tax, and tobacco and beverage tax revenues and the establishment of the large taxpayer unit, these were not sustained.4 Exogenous factors affected this outcome, including a substantial drop in oil prices during 2014 and free trade agreements, which reduced Panama’s import tax revenues (World Bank 2016b). With the gradual slowdown of growth in subsequent years, the tax revenue–to–GDP ratio declined to just under 9 percent in 2019 (IMF 2020, 31). Although the series had used a prior action to support the reorganization of the General Directorate of Revenues into an autonomous agency, the supreme court ruled the reorganization, which would have strengthened its authority and capacity to increase tax revenues, unconstitutional. In addition, better stakeholder management—engaging more broadly with the private sector on tax reform—could potentially have delivered better results and compliance.
2.6 Domestic debt market deepening did not proceed as expected. Despite the establishment of the primary dealer market, which was a prior action under the third pillar, and the secondary market for domestic government debt, domestic market for government debt never took off. It has been suggested that the main reason that the domestic debt market remains underdeveloped is that Panama has continued to enjoy stable, low-cost, and easy access to international market financing, which underpins the government’s preference for international financing (Velandia and Secunho 2020, 23), drawing into question the analytical basis for the proposed reform.

2.7 Despite initial improvements with the use of the e-procurement platform, there is no evidence of sustained improvement and efficiency gains. Although the PanamaCompra e-procurement system increased the coverage of goods and services in the public sector that used the platform, the evaluation team could not find evidence that this has been sustained or that it led to efficiency gains in terms of cost savings (World Bank 2016b). This outcome was affected in part by a fire that destroyed the Directorate General of Public Procurement in May 2013, during the implementation of the third operation in the series.

Design and Preparation

2.8 The series focused on some of important development issues. International tax transparency issues became a threat to Panama’s business model, which is based on attracting foreign and financial investments. At the time of preparation, the rudimentary levels of debt management capacity and institutional arrangements could be a source of risk in cases of international market turbulence, which would adversely affect Panama’s access and terms of international borrowing. Efficiency of public procurement has been a long-standing issue, which resulted in costly, nontransparent, and inefficient public sector purchases of goods and services, contributing to lower quality of public expenditures. Despite gains in poverty reduction in previous years, Panama continued to face entrenched and deep poverty among indigenous population and Afro-descendants because of limited social safety nets, which needed greater coverage and improved targeting. That said, measures on the debt management (particularly the development of a domestic debt market) and international tax front, were not prioritized.

2.9 Reforms related to social safety nets were well designed. The theory of change was generally clear, linking inputs to outputs and outcomes that could be reasonably expected to contribute to twin goals, especially with respect to social safety nets. The improved targeting of the main social safety net program for impoverished people, Red de Oportunidades, and another cash transfer program for the older impoverished and vulnerable people, 100 a los 70, and the establishment of a new program providing scholarship for secondary school students from impoverished families, Beca Universal,
could all be reasonably expected to widen and better target social safety nets and to increase the incomes of impoverished people, conditional on their actions (for example, keeping children in school and attending regular health checkups).

2.10 Weak elements of design were complexity and realism of some targets, particularly with respect to tax revenue mobilization, and output orientation of some results indicators. Increasing tax revenues by 2 percentage points of GDP from a low base was excessively ambitious. It would have meant almost 20 percent increase in revenue-to-GDP ratio over a three-year period, a challenge under any circumstances. Moreover, strong political groups outside the executive branch of government and in the private sector did not see the rationale for increasing domestic tax revenues given the large nontax revenues, including those from the Panama Canal. The other weak element of the design was that some output-oriented indicators, such as that measuring progress with procurement reform, did not take into account cost as contributor to the efficiency of procurement.

2.11 Program documents identified three sets of risks to achieving outcomes and mitigating measures at preparation but missed an important stakeholder risk to tax reform. The first risk identified was food and oil price inflation, for which the dialogue with the World Bank and the IMF in the context of the social and fiscal responsibility law was cited as a mitigating mechanism. The risk of broad political opposition to increases in tax revenues was not identified ex ante. The second risk to achieving outcomes identified was with respect to institutional weaknesses, especially in public financial management and procurement, which was to be mitigated by parallel investment projects in these areas. This was an appropriately identified risk, and the parallel project was a credible mitigating measure. The third set of risks associated with broader opposition within society were to be mitigated through consultation with civil society. However, opposition to reform was less from civil society at large and more from private sector interests and legal groups that successfully challenged the constitutionality of the reform.

Implementation and Supervision

2.12 Collaboration with development partners, including joint analyses, was good. Program implementation was positively influenced by collaboration with the Inter-American Development Bank, which conducted joint analytical work supporting the DPL series agenda and loans by the Inter-American Development Bank focusing on fiscal and financial sector regulation. The IMF provided advisory support to the government in the areas of sovereign wealth fund management and fiscal rules. The Fund led on macroeconomic policy and relied on the World Bank for input on tax reform, procurement, and social protection. In the area of tax transparency, the Fund focused on anti-money-laundering issues, while the World Bank led the dialogue on international tax transparency. The Fund benefited from the World Bank’s presence in the field and deep
technical knowledge, especially on structural, sectoral, and social protection issues. Interviews with both World Bank and IMF staff supported the productive collaboration and exchange of information at the technical level. There was cooperation and coordination with the OECD and the Global Forum, although closer coordination would have been desirable.

2.13 The World Bank team also collaborated well across Global Practices and with International Finance Corporation. This collaboration reflected continuous dialogue and monitoring of developments and policies supported by the series. The World Bank team included specialists on economic policy, financial management and procurement, debt management, and social protection. The Bank contribution and government’s results in increasing tax revenue was very limited but clearly substantial in the area of social safety net (Box 2.1).

Box 2.1. Considering Two Counterfactuals: Tax Revenues and Social Safety Nets

Counterfactuals can be useful in considering what would have happened if the revenue reforms were successful and in the absence of World Bank–supported interventions in social safety net. We consider two such counterfactuals.

**Counterfactual 1.** Consider, other things being equal, a counterfactual where the World Bank and the government did manage to increase tax revenues by 2 percentage points of gross domestic product (GDP), creating additional fiscal space before the coronavirus (COVID-19) pandemic. Had three-quarters of this additional revenue been allocated to social safety nets, it would have created a larger safety net that reached more impoverished people before the pandemic and would have enabled the government to spend an additional 1.5 percentage points of GDP on anticrisis expenditure, increasing its actual 2020 anticoronavirus pandemic expenditures (3 percent of GDP) by about 50 percent. This, in turn, would have cushioned the impact on impoverished people and likely led to a smaller drop in real GDP, with beneficial impact on unemployment.

**Counterfactual 2.** Absent World Bank support for social safety nets, would have the resulting social safety net reform taken place? Document reviews and interviews conducted converge on the view that the scope and depth of these reforms, without the World Bank engagement, would have been smaller, perhaps substantially so. Local capacity was limited. No other agency at the time had a similar global know-how in this area, and the World Bank was pushing for these reforms and tailored them to the Panamanian context.

*Source: Independent Evaluation Group.*

2.14 The World Bank team made appropriate midcourse corrections in the results framework to update certain indicators and targets and revise them to make them more realistic where appropriate. Therefore, the final results framework reflected tighter links among objectives, actions, and results indicators and targets, except in the area of the government revenue pillar.
3. Lessons

3.1 This evaluation of the Panama DPL series affords the opportunity to reflect on lessons for future development policy operations in Panama. These lessons may also be of relevance to operations in other countries in similar situations.

- Development policy financing design requires realism and clarity about risks to implementation. This entails clearer articulation of the results chain that links prior actions to desired outcomes. For Panama, a closer examination of the results chain would have highlighted the ambition of some of the targets and drawn into question their feasibility over the operation’s time period.

- Social protection reform in Panama was a matter of political will rather than resource availability. This is evident in the substantial expansion and better targeting of social protection, without increases in government revenue, suggesting that government revenue was, in fact, not the binding constraint nor a necessary condition for the strengthening of social protection.

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1 International Consortium of Investigative Journalists and 100 international media partners began publishing massive documentary evidence of foreign taxpayers’ presence in Panama, some of which was with the purpose of tax evasion and potentially illicit activities (Fitzgibbon and Hudson 2021).

2 Under prior action 3, the government (i) signed double taxation conventions with 10 countries; (ii) signed the Agreement for Tax Cooperation and the Exchange of Information Relating to Taxes with the United States; (iii) enacted Law 33, which empowers the Data Gaps Initiative to obtain information to comply with any international agreement that provides for the exchange of information in tax matters, regardless of the relevance of the information for domestic tax purposes; and (iv) enacted Law 2 of 2011. Under prior action 7, the government adopted a custody regime for bearer shares to facilitate identification of the ownership of said type of shares. Both sets of actions directly responded to the issues that had resulted in noncompliance under the Global Forum peer review phase 1 (OECD 2010; appendix A).

3 Prior action 10 defined activities and improvements in the office of debt management to ensure that the country issues treasury notes and establishes a primary dealer program. Prior action 11 was aimed at restructuring the debt management office so that it was in alignment with international best practices (appendix A).

4 The first prior action required the government to widen the tax base, reduce tax exemptions, and increase the value-added tax rate from 5 percent to 7 percent (for further details, see appendix A).
When the series was being prepared, the government was engaged in widening of the Panama Canal, a major $500 million dollar project. The International Finance Corporation financed part of that project, but the World Bank did because of significant concerns about the quality of the procurement process.

Enhanced Public Sector Efficiency Technical Assistance Loan Project, which supported reforms in the areas of public financial management and procurement, and World Bank Treasury’s technical assistance on debt management.

This was documented in Implementation Completion and Results Reports for development policy loan DPL1 (June 2011, July 2011, and November 2012); DPL2 (July 2013 and February 2014); and DPL3 (March 2014). The World Bank and the International Finance Corporation collaborated well, with the International Finance Corporation having a larger presence in the field in Panama. The International Finance Corporation was initially involved in the dialogue on international tax transparency.
Bibliography


Appendix A. Ratings

Panama—First (P123255), Second (P127332), and Third (P146942) Programmatic Fiscal Management and Efficiency of Expenditures Development Policy Loans

Table A.1. ICR, ICR Review, and PPAR Ratings

<table>
<thead>
<tr>
<th>Indicator</th>
<th>ICR</th>
<th>ICR Review</th>
<th>PPAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Moderately satisfactory</td>
<td>Moderately satisfactory</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Risk to development outcome</td>
<td>Moderate</td>
<td>Modest</td>
<td>n.a.</td>
</tr>
<tr>
<td>Bank performance</td>
<td>Satisfactory</td>
<td>Moderately satisfactory</td>
<td>Moderately satisfactory</td>
</tr>
<tr>
<td>Borrower performance</td>
<td>Moderately satisfactory</td>
<td>Moderately satisfactory</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Sources: World Bank 2016a (ICR), World Bank 2016b (ICRR), this report (PPAR).
Note: The Implementation Completion and Results Report (ICR) is a self-evaluation by the responsible Global Practice. The ICR Review is an intermediate Independent Evaluation Group product that seeks to independently validate the findings of the ICR. PPAR = Project Performance Assessment Report.

1. Program Objectives and Pillars/Policy Area

Objectives

The objectives of the programmatic series were

- Project development objective 1: Increase fiscal space
- Project development objective 2: Improve the efficiency of public spending
- Project development objective 3: Strengthen fiscal management and transparency
- Project development objective 4: Strengthen social programs

For development policy loan (DPL) 3 the wording of the development objective was slightly adjusted to make it more specific and better aligned with the four components of the operation (ICR 4). There were 21 prior actions in a three-operation series across four pillars.

Relevance of Design

The objectives were highly relevant to country conditions, the government’s strategy, and the World Bank–supported country strategy at appraisal and closing as well as at the time of preparing this PPAR (2020–21). The low domestic revenue mobilization (outside Panama Canal and other nontax revenues) limited the country’s ability to expand and finance an adequate social safety net. Corruption, including in public
procurement, was a major social and economic issue. Although the lack of a modern debt management office was not a major constraint given Panama’s low level of public debt, it did pose a macroeconomic vulnerability in a scenario of international market turbulence. Finally, there was broad recognition that Panama’s social safety net needs to be expanded and better targeted to help address the problem of poverty, especially among the indigenous population, Afro-descendants (World Bank 2011a), and women and girls, who were and remain the most vulnerable segments of the population.

The Policy Matrix presents a clear and logical chain among objectives, prior actions, and expected results. Although the framework was somewhat modified during DPL2 and DPL3 (World Bank 2013, 33), it was adjusted to reflect the actual pace of reform. The DPL series was an appropriate instrument. It provided support to longer-term policy and structural reforms of the public sector. However, pillar 1 was overly ambitious and, in one area, too complex, with many subactions in the first two prior actions. It also underestimated the policy effort and time required for achieving results, especially with respect to increasing revenue mobilization, taking into account the capacity and institutional constraints, the traditionally high turnover of staff in tax administration and the Ministry of Finance, and opposition to implementing reforms aimed at increasing government revenues.

**Relevance of Prior Actions**

Justification behind prior actions was generally sound albeit with some exceptions. Rooting the international tax transparency actions in the Global Forum peer review process aimed to address the causes of the blacklisting. On debt management, the preparation of the first debt management strategy with assessment of fiscal risks and the creation of a modern debt management office were expected to strengthen the institutions of debt management and better prepare the country for future fiscal challenges under adverse external and domestic conditions. However, a number of subactions aimed at increasing domestic tax revenue assumed that policy and institutional actions alone would suffice to deliver results in a relatively short period of time. This proved to be inconsistent with limited capacity, large turnover of personnel, organizational changes, and opposition to increasing government revenues. Similarly, prior action on procurement reform targeting the implementation of the PanamaCompra 2.0 platform was a largely technical solution to a broader problem with corruption.

Overall, the relevance of prior actions is **satisfactory**.
Prior action (PA) 1: This prior action (DPL1; rating MU) sought to widen the government tax base and reduce tax exemptions by enacting Law 8 of 2010, which aimed to (i) increase the ITBMS rate from 5 to 7 percent; (ii) eliminate VAT (ITBMS) exemptions for air passenger transport, residential phone calls, and lubricants; (iii) tax real estate transactions in the Colón Free Zone and other existing free zones (including in free zones created in the future); (iv) expand the taxation of dividends, including for companies located in the Colón Free Zone and other existing free zones; (v) eliminate certain personal deductions; and (vi) modify the calculation of expenditure deductions, to take into account the proportion of taxable income versus total income. The PA focused on exemptions, which undermined the tax base. Exemptions were estimated be fiscally costly (about 1.8 percent of GDP compared with 10.8 percent of GDP in domestic revenues). However, the PA was too complex, consisting of six subactions, each of which was a significant policy action on its own, and very ambitious in the two-year period envisaged. The action also assumed that the enactment of the law alone would guarantee implementation, which was not the case. A more focused PA, targeting, for example increases in VAT rates and VAT exemptions, with strong support from tax administration, would have stood a better chance of delivering results.

PA 2: The second prior action (DPL1; rating: MU) was implemented to improve the performance of tax administration: (i) the establishment of an Administrative Tax Tribunal, as evidenced by Law 8, which created the tribunal and the appointment of the Magistrates for the tribunal; and (ii) the creation of a unit of tax information sharing and a unit of international taxation within the DGI. This action did not directly contribute to increasing domestic revenues but was focused on resolving tax disputes and fostering tax fairness and trust, which could contribute to increasing revenues over the longer term but not over the two-year period of the operation. This new method of tax oversight also generated delays because of the need to remove and replace existing personnel.

PA 4: The prior action (DPL2; rating: S) was to create the Large Taxpayers Unit (LTU) through the Ministry of Economy and Finance and made it operational through 1) identification of 72 Large Taxpayers; 2) the selection and training of ten tax auditors to carry out audits of large taxpayers; 3) preparation by DGI of an action plan to be implemented by the LTU in 2013 to increase tax collection from Large Taxpayers, and 4) implementation of an audit system that tracks validation of Large Taxpayers’ compliance against their declared tax liabilities.
This was a relevant action because LTUs units have proven useful, especially in low-revenue settings, to ensure that the largest taxpayers are monitored by the tax authorities and that they pay their share of taxes on a regular basis.

- **PA 6:** Through this prior action (DPL3; rating: MS) the government took steps to increase tax compliance by carrying out 10 audits of large taxpayers using advanced audit techniques. The implementation of the advanced audit techniques helped provide oversight of the large taxpayers, potentially contributing to their greater compliance. In that sense, the action could contribute to the objective of increasing domestic tax revenues from large taxpayers.

**Pillar 1.a. Increasing Tax Transparency (Rating: S)**

- **PA 3:** This prior action (DPL1; rating: S) enumerated the steps to implement some of the Global Forum’s Peer Review Phase 1, as evidenced by (i) signing double taxation conventions with 10 countries; (ii) signing of the Agreement for Tax Cooperation and the Exchange of Information Relating to Taxes with the United States; (iii) enactment of Law 33, which empowers the DGI to obtain information to comply with any international agreement that provides for the exchange of information in tax matters, regardless of the relevance of the information for domestic tax purposes; and (iv) enactment of Law 2 of 2011. This action was squarely focused on identified problems in international tax transparency during the OECD Global Forum Peer Review process, targeting required improvements to improve the external perceptions of tax transparency and negative assessment.1

- **PA 5:** This prior action (DPL 2; rating: MS) targeted effective exchange of tax information with foreign tax jurisdictions and signing of tax information exchange agreements. The action contributed to the pillar on tax transparency, and it was a necessary condition for improving effective exchange of information for tax purposes. However, the agreement itself was not a sufficient condition for

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1 The OECD Peer Review Phase 1 for Panama identified five sets of problems: (i) Availability of ownership information particularly in relation to joint stock corporations; (ii) Availability of accounting information in respect of entities that are not in receipt of Panamanian source income; (iii) Uncertainties regarding the Panamanian authorities powers to obtain information for exchange purposes; (iv) Availability of sanctions for failure to keep or produce information for exchange purposes; and (v) Reluctance to enter into tax information exchange agreements. (OECD 2010, 7).
effective exchange of information, which is an act and practice based on these agreements.

- PA 7: This prior action (DPL 3; rating: S) allows for an amendment to adopt a custody regime for bearer shares for purposes of facilitating the identification of the ownership of said type of shares. This targeted a key problem identified in the OECD Global Forum Peer Review Phase 1 and, as such, was important in contributing international tax transparency.

Pillar 2 Modernizing Public Sector Procurement Practice (Rating: MS)

- PA 8: This prior action (DPL1; rating: MU) was aimed to improve the efficiency and transparency of its national procurement system, as evidenced by the implementation of a new e-procurement platform, PanamaCompra (version 2.0). Although this action could lead to modernization of public procurement, and potentially to cost savings, its completion alone does not demonstrate per unit cost saving as an indication of efficiency gains, which is the goal of modernizing procurement practice.

- PA 9: This prior action (DPL 2: Rating S) was partially enacted through its Dirección General de Contrataciones Públicas, within the e-procurement platform PanamaCompra. The government introduced important, new mandatory framework agreements for all Public Entities and updating of the regulatory framework to better handle complex contracts. These frameworks were expected to contribute to making procurement more efficient.

Pillar 3 Improving Institutional Arrangements for Debt Management (Rating S)

- PA 10: This prior action (DPL1; rating: S) defined activities and improvements in the office of debt management to ensure that the country issues treasury notes and establishes a primary dealer program as a precondition for the expansion of the domestic debt market. As such, it was relevant to the objective.

- PA 11: This prior action (DPL2: Rating S) was aimed at restructuring of the debt management office so that it was in alignment with improved capacity to manage debt, including under different market borrowing conditions, and international best practices. This was the foundation for the creation of a sound debt strategy that included the assessment of fiscal risks.

- PA 12: This prior action (DPL 3: Rating MS) aimed at preparing and publishing debt evaluation reports assessing market risks and modifying contracts with international credit risk agencies so that Panama’s sovereign bonds could be rated, which until then had been a major challenge. Depending on the content
and quality of the reports, this could potentially influence positively Panama’s sovereign rating and, therefore, the cost of sovereign borrowing.

Pillar 4: Expanding and Strengthening Social Transfer Programs (Rating: S)

- PA 13: This PA seeks to protect the integrity of the social safety program to assist those who are most vulnerable by getting ineligible households off the program and by increasing the number of eligible beneficiaries by 3,000 (DPL 1). Therefore, this PA contributes to the objective by directly helping expand coverage and improve targeting of those eligible for the CCT program. (Rating: S).

- PA 14: The PA seeks to expand the social transfer programs to a specific population, the poor and vulnerable elderly under its 100 a los 70 cash transfer program (DPL1; rating S). By covering the previously uncovered but poor and vulnerable population, the program contributed to expanding and improving the targeting of the social safety net.

- PA 15: The PA pillar seeks to build further the Beca Universal scholarship program through the enactment of Law 40 (DPL1; rating S). Given that this program initially began in 2010 with children in grades 1–6, the expansion of this program into public secondary education could significantly contribute to the expansion of the social transfer program, especially given the large dropout rates in secondary education among poor people and vulnerable children.

- PA 16: The PA pillar focused on the eligibility and selection of the elderly citizens for this cash transfer program, 100 a los 70 (DPL2; rating HS or 6). This was a strong step to expand this program and, therefore, contribute to the objective of expanded coverage for social programs for poor people.

- PA 17: The PA seeks to expand the Beca Universal scholarship program to 1–6 grades in all secondary public schools (DPL2; rating S). The Institute for Training and Use of Human Resources (IFARHU) extended the safety net for those most in need. This vocational training institute affords those in the Beca Universal the opportunity to broaden their options for income earning through the vocational training not just those who completed academic program.

- PA 18: The PA seeks to further and more accurately expand the beneficiaries of the 100 a los 70 program (DPL 3) for the elderly (Rating S). This PA also includes provisions to verify compliance with the beneficiaries through processes for entry to and exit from the program and to incorporate beneficiaries in the Registro Unico de Beneficiaries and to formally incorporate the Secretaria
Ejecutivo del Programa. This PA linked these activities directly to the objective of expanding the social transfer program to the needy.

- PA 19: The PA creates an important institutional underpinning for social transfer: a unified registry of beneficiaries of the three social transfer programs (DPL3; rating HS). Creation of such registry is key to ensuring targeting and effectiveness of programs. It provides a data architecture to uniquely identify beneficiaries in a single database that could be cross-checked across programs.

- PA 20: The PA states that the government has “taken steps” to create an evaluation system for the Beca Universal system (DPL3; rating MU), but does not mention what it would take to implement this system. The core rationale for this PA is that the addition of questions on the scholarship form would aid the evaluation process. Even though evaluation is necessary for understanding how beneficial the scholarship program is for the individuals, the methodology for collecting this information and its usefulness in expanding and targeting of the program is not entirely clear nor is there detail how the evaluation will be carried out.

- PA 21: The PA states that the government has created an assistance program, Ángel Guardián, which would serve impoverished people with severe disabilities (DPL 3; rating HS or 6). This PA was logically linked to the objectives and increased the social protective net for a most vulnerable, which was previously not included in the social safety net.

Relevance of Results Indicators (Rating)

Table A.2. Description of Results Indicators by Pillar, the Prior Actions They Support, Baseline and Target Values, and Status

<table>
<thead>
<tr>
<th>Results Indicators (number and description)</th>
<th>Associated Prior Action</th>
<th>Baseline/Target</th>
<th>Statusa (latest year available)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pillar 2: Modernizing public procurement practices</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

24
R5: Central government agencies and all others subject to Law 22 and its modifications use framework agreements, and the number of catalog items procured under those framework agreements 

**Pillar 3: Improving institutional arrangements for debt management**

R6: The medium-term debt management strategy was published and revised annually, and corresponding debt evaluation reports compared the evolution of risk indicators with the targets in the strategy

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PA8, PA9</td>
<td>2,452</td>
<td>7,300</td>
<td>n/a</td>
</tr>
<tr>
<td>Actual (2014)</td>
<td>11,801</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pillar 4: Expanding coverage and improving targeting of cash transfer programs

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PA13</td>
<td>Not revised</td>
<td>Revised</td>
<td>Remains in use.</td>
</tr>
<tr>
<td>Actual (2014)</td>
<td>Revised</td>
<td></td>
<td>Revised</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PA16, PA18</td>
<td>No reports.</td>
<td>Reports issued</td>
<td>Bi-monthly reports issued</td>
</tr>
<tr>
<td>Target (2014)</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual (2014)</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PA20</td>
<td>Zero.</td>
<td>100.</td>
<td>70,000 households.</td>
</tr>
<tr>
<td>Actual (2014)</td>
<td>100</td>
<td></td>
<td>13,688</td>
</tr>
</tbody>
</table>

Source: World Bank. 2016a for results indicators, prior actions, and baseline/targets; and IEG evaluation team for status of outcomes.

Note: PA = prior action; RI = Results Indicators
a. If the RI has been dropped before the final approved operation in the series, note “Dropped” in place of “actual.”

Sources of data on the latest year: IMF 2020, 2021 (R1–3), OECD 2019 (R14), Credito Publico (R16), World Bank 2021 (R17, R18, R19, R110, R111).

**Relevance of Results Indicators**

Relevance of results indicators (Ris) was satisfactory, as detailed below. RIs generally captured well the impact of associated PA and measured progress toward the pillar goals. They all had clearly defined baselines and targets and except in one case, on RI for procurement, data were not available on closure of the series.

---

**Note:**

PA = prior action; RI = Results Indicators
a. If the RI has been dropped before the final approved operation in the series, note “Dropped” in place of “actual.”

Sources of data on the latest year: IMF 2020, 2021 (R1–3), OECD 2019 (R14), Credito Publico (R16), World Bank 2021 (R17, R18, R19, R110, R111).
Pillar 1: Mobilizing Domestic Tax Revenue and Increasing Tax Transparency

RI1, RI2, RI3 (ratings: 5 or S). Three results indicators, described in table A.2 above (RI1, RI2, RI3), measured the contribution of actions to increasing domestic tax revenue. They were well chosen and had clear definitions and quantitative baselines and target they had certain weaknesses. RI1 (tax revenues as percent of GDP) captured the potential impact of PA1 (widening the tax bases by reducing exemptions) and it measured the contribution to the part of the pillar 1 objective of increasing domestic tax revenues. RI2 (VAT revenues) also captured the impact of PA1 with respect to VAT revenues (increasing VAT tax rate was aimed under this PA) and it measured the progress toward the part of the Pillar 1 goal of increasing domestic tax revenues. RI3 (large taxpayer unit coverage of tax revenues) captured directly the impact of Pas 4, and 6, on large taxpayer unit, and also, indirectly, the impact on Pas 1–2. It also in part measured progress toward the Pillar 1 goal of increasing domestic tax revenues. Data for the first two indicators are routinely available in the IMF and World Bank databases and regular Article IV consultation and World Bank country reports. However, the data for the third indicator was not readily available for ex post analysis.

Pillar 1.a. Increasing International Tax Transparency

RI4. Rating 5 or S. The indicator was well defined, with clearly defined, quantitative baselines and targets. RI4 (number of signed TIEAs) captured the impact of PA5 (Panama has signed 12 TIEAs and has exchanged information as requested) and the indicator was relevant to measuring progress toward the part of the Pillar 1 objective on increasing international tax transparency. Data for the indicator are available through the OECD, IMF, and Ministry of Finance publications.

Pillar 2: Modernizing Public Procurement Practices

RI5. Rating MS or 4. RI5 (use of framework agreements and the number of catalog items procured with number of catalogued items), was a well-defined indicator, with baseline and target. It captured the PA9 (legal framework for framework agreements) and measured progress toward Pillar 2 objective of modernizing procurement practices. Indirectly, it was also linked to PA8, which sought to establish e-procurement platform and improve efficiency of procurement by reducing cost and increasing transparency. However, data were not readily and publicly available after the DPL Series closure.

Pillar 3: Improving the Institutional Arrangements for Debt Management

RI 6. Rating S or 5. (publication of medium-term debt management strategy and debt evaluation reports). This was a well-chosen, qualitative indicator, which directly captured the impact of the associated PA12 and, less directly, the PA 11 on the restructuring of the debt management office and PA10 on the establishment of the
primary dealer network. It was measuring progress toward Pillar 3 goal of improving institutional arrangements for debt management.

Pillar 4: Expanding and Strengthening Social Transfer Programs

RI7. Rating H5 or 6. The indicator, the revised proxy means test is in use to select all households that enter in the Red de Oportunidades CCT program, captured the impact of associated PA13, which aimed to eliminate ineligible households and increase those who are eligible. As a result, the indicator was highly relevant in measuring the progress toward the Pillar 4 goal of expanding and improving targeting of this key social transfer program, and the other programs using this test.

RI8. Rating S or 5. This indicator (increased ability of MIDES to conduct recertification of beneficiaries of 100 a los 70 through the regulation of Law 86 and the recertification strategy of 100 a los 70), indeed, was well linked to the PA14, which aimed to cover the previously uncovered segment of the population, the poor elderly people. It also captured PA16 on eligibility of beneficiaries for this program. As such, the indicator was well measuring the progress toward the goal of expanding the social transfer program and also better targeting by including the previously uncovered group that lives in poverty.

RI9. Rating S or 5. RI9, (quarterly reports based on Single Registry) was also well chosen, and was well linked to PAs 16, 18 and 19, which aimed to create the single registry for the beneficiaries of all three social assistance programs. By measuring progress on this foundational reform, it was also well linked to the goal of expanding and improving targeting of social transfer programs.

RI10. Rating S or 5. RI10, the percentage of children from the poorest quintile who receive Beca Universal, was well chosen and relevant for capturing the impact of the PA17 seeking to expand this program and PA20, which aimed to establish evaluation of the program, and it also measured progress toward expanding this program.

RI11. Rating S or 5. RI11 on the number of the elderly with severe disabilities was well linked to the PA21, which helped create the Ángel Guardián program, where there was none before. By also measuring the expansion of the people covered, the RI also measured progress toward the Pillar 4 goal.
2. Efficacy/Achievement of Objectives (Drawing on Results Indicators and Other Evidence)

Achievement of Objective—Efficacy

Table A.3. Relevance of Results Indicators and Efficacy

<table>
<thead>
<tr>
<th>Overall efficacy/achievement of objectives</th>
<th>Relevance of Results Indicators</th>
<th>Achievement Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pillar 1: Mobilizing Domestic Tax Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R1 1</td>
<td>S</td>
<td>Negligible</td>
</tr>
<tr>
<td>R1 2</td>
<td>S</td>
<td>Negligible</td>
</tr>
<tr>
<td>R1 3</td>
<td>S</td>
<td>Modest</td>
</tr>
<tr>
<td>Pillar 1.a. Increasing Tax Transparency</td>
<td>R1 4</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>R1 5</td>
<td>S</td>
<td>Modest</td>
</tr>
<tr>
<td>Pillar 2: Modernizing Public Sector Procurement Practice</td>
<td>RI 6</td>
<td>S</td>
</tr>
<tr>
<td>S</td>
<td></td>
<td>Substantial</td>
</tr>
<tr>
<td>Pillar 3: Improving the Institutional Arrangements for Debt Management</td>
<td>R7</td>
<td>HS</td>
</tr>
<tr>
<td>RI 7</td>
<td>S</td>
<td>High</td>
</tr>
<tr>
<td>RI 8</td>
<td>S</td>
<td>Substantial</td>
</tr>
<tr>
<td>RI 9</td>
<td>S</td>
<td>Substantial</td>
</tr>
<tr>
<td>RI 10</td>
<td>S</td>
<td>Substantial</td>
</tr>
<tr>
<td>RI 11</td>
<td>S</td>
<td>High</td>
</tr>
</tbody>
</table>

Overall efficacy is satisfactory.

Pillar 1: Mobilizing Domestic Tax Revenue and Improving International Tax Transparency

Targets for RI1 and R2 were not achieved and, in fact, both metrics were lower in 2021 than at the outset of the program. Tax expenditures, which were supposed to be reduced significantly, were estimated to have increased to 3–4 percent of GDP (IMF 2021). VAT revenues did initially increase but this was not sustained. RI3 measuring progress with large taxpayer unit, showed only modest achievement, with 33 percent of tax revenues covered by the LTU by 2014, against a target of 50 percent; moreover, data were not readily available to assess the more recent status of this indicator. Reorganization of the unit has also not helped improve compliance from large taxpayers. The LTU conducted training of 10 auditors and completed 91 audits immediately after the series, in 2015-2 but this did not lead to tangible improvement in revenue collection. Good progress was
achieved with the signing of the tax information exchange agreement. The latest data show 26 signed agreements (OECD 2019) compared with the targeted 12.

Pillar 2: Modernizing Public Procurement Practices
RI5 was substantially overachieved during the life of the Series. Items procured under those framework agreements increased from 2,452 (2009) to 11,801 (2014), substantially exceeding the target of 7,300. However, data were not readily available assess more recent status. The e-procurement platform PanamaCompra 2.0, was operational, but there are no available data to document the extent of the efficiency gains.

Pillar 3: Improving the Institutional Arrangements for Debt Management
The government adopted its first medium-term debt strategy, including assessment of fiscal risks and impact of potential market fluctuations, published it, and started issuing quarterly and monthly debt reports, which continue in 2021. Preparation of new MTDS is underway.

Pillar 4: Expanding and Strengthening Social Transfer Programs
RI7–11 showed the highest achievement with this overall pillar showing important and sustained progress and outcomes. The government removed from the eligibility roster of Red de Oportunidades 10,000 out of 70,000 households that did not qualify for aid, adding in a similar number from the impoverished region. The government also increased the benefit of 100 a los 70 for the elderly poor and it increased it further after the closure of the series. World Bank–supported reforms led to the creation of the third social CCT, Ángel Guardián, for the impoverished individuals with disabilities and the government established Single Registry of Beneficiaries and the Single Payment Platform. Beca Universal, a CCT targeting school children was expanded to the secondary public school, substantially exceeding targets.

Overall Rating
Overall outcome rating is satisfactory given that relevance of prior actions is satisfactory and achievement of objectives is satisfactory.

3. Discussion of Risks to Development Outcome
As of December 2021, there are significant deterioration and further risks increasing domestic tax revenues and international tax transparency.

Public procurement remains an area where considerable risks remain given the perceptions of corruption in public and private sectors, which continue to pose threats to the integrity, efficiency, and cost of public purchases of goods and services.
The main risk to public debt management comes from high staff turnover in the office because of large salary differentials between private and public sector for highly skilled officials with knowledge of debt and international markets.

4. Bank Performance

Lessons from prior experience: The series benefited in its design and preparation from lessons of DPL experience, including preference for multisector approach, government-led reforms, and strong analytical base that informed the series. However, the design was overly complex and ambitious with respect to the first pillar, given the limited institutional capacity. This echoed a broader lesson the Independent Evaluation Group noted in its CLRR for the Panama CPS (2010–14).

Risk identification and mitigation: Program documents contained discussion of macroeconomic, institutional, and political risks to achievement of PDOs, but articulated both generic and concrete mitigating measures. The main macroeconomic risk was deemed to come from the drop in commodity prices and imports as a result of an external shock. The main mitigating mechanism noted was the government’s fiscal responsibility rule. Institutional capacity was identified as a risk given capacity constraints in the public sector, especially in the areas of PFM and procurement and given high turnover of technical staff. Mitigation was sought through parallel investment projects in these areas. Finally, the series had noted the political risks mainly due to the lack of consultations with the civil society, which could undermine broader support for the reform. However, it underestimated political risks for tax reform that were not mitigated by public consultations.

Stakeholder consultation: The World Bank consulted with civil society but may not have fully connected with constituencies that proved to be the main obstacles to reform. Internally, the World Bank teams collaborated well across Global Practices, and through exchange of information with the IMF.

Development partner coordination: The World Bank collaborated and coordinated with the relevant development partners (for example, IDB, IMF) in design and implementation of series. Collaboration with the IMF was in the area of taxation and with the IDB on social protection, which informed the first and fourth pillars.

Monitoring: Credible evidence (for example, ISRs, supervision missions, interviews with the government officials and development partners) indicate regular monitoring of progress toward achievement of targets for results indicators, not just at time of ICR.
Adaptation: As the pace of reform changed somewhat as it became apparent that some targets were too ambitious. For example, the revenue target was reduced from 13 to 12 percent of GDP, but that, too, proved ambitious.

References


Appendix B. Methods and Evidence

Data. The PPAR collected and analyze new data beyond those available at the time of the Implementation Completion and Results Report Review, in this case, as of fall 2021.

The PPAR combined three main methods of evaluation:

- Document review and analysis, including a review of all World Bank documents related to the series and subsequent budget support operations in Panama (program documents, monitoring reports, and self-evaluation), the Panama Country Partnership Strategy and relevant analytical and diagnostic work, International Monetary Fund Article IV consultation reports, Inter-American Development Bank country program evaluations, and reports by the Organisation for Economic Co-operation and Development, the Global Forum peer review, the Financial Action Task Force–Groupe d’Action Financiere, and public documents from the government of Panama related to the policy pillars of the series.

- Semistructured interviews of World Bank staff involved in the operation and the related operations; semistructured interviews of IMF, IDB, government, and local stakeholders to obtain stakeholder feedback on the World Bank relevance and effectiveness questions and implementation nuances and challenges.

- Contribution analysis aiming to establish links between World Bank support (financing, policy reforms) under the development policy loan series and specific program outcomes.

Information was triangulated to check consistency and robustness of findings from individual methods and data sources. Congruent, ambiguous, and conflicting information were analyzed and reported as appropriate.

Finally, the coronavirus (COVID-19) pandemic posed significant restrictions on travel, so the Project Performance Assessment Report country mission was conducted remotely.
### Appendix C. Objectives and Policy Areas

#### Table C.1. Development Objectives and Policy Areas

<table>
<thead>
<tr>
<th>Development Objectives</th>
<th>DPL1 Prior Actions</th>
<th>DPL2 Prior Actions</th>
<th>DPL3 Prior Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobilizing domestic tax revenue</td>
<td>The government has widened its tax base and reduced tax exemptions by enacting Law 8 of 2010, which (i) increases the ITBMS rate from 5 to 7 percent. (ii) eliminates ITBMS exemptions for air passenger transport, residential phone calls, and lubricants; (iii) taxes real estate transactions in the Colón Free Trade Zone and other existing free zones (including in free zones created in the future); (iv) expands the taxation of dividends, including for companies located in the Colón Free Trade Zone and other existing free zones; (v) eliminates certain personal deductions; and (vi) modifies the calculation of expenditure deductions, to take into account the proportion of taxable income versus total income. The government has implemented the following measures to improve the performance of its tax administration: (i) the establishment of an Administrative Tax Tribunal, as evidenced by Law 8, which creates the tribunal and the appointment of the magistrates for the tribunal; and (ii) the creation of a unit of tax information sharing and a unit of international taxation within the DGI.</td>
<td>The government, through the Ministry of Economy and Finance, has created the LTU within the DGI and has made it operational through (i) the identification of 72 large taxpayers; (ii) the selection and training of 10 tax auditors to carry out audits of large taxpayers; (iii) the preparation by DGI of an action plan to be implemented by the LTU in 2013 to increase tax collection from large taxpayers; and (iv) the implementation of an audit system that tracks validation of large taxpayers' compliance against their declared tax liabilities; as evidenced by (i) Ministerial Resolution 065 issued by the Ministry of Economy and Finance on December 12, 2012, and published in the government’s official gazette on January 4, 2013, and (ii) the DGI’s Note 201-01-8462 dated December 11, 2012, to the World Bank.</td>
<td>The government, through the ANIP, has taken steps to increase tax compliance by carrying out 10 audits of large taxpayers using audit techniques.</td>
</tr>
<tr>
<td>Increase fiscal space</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Increasing tax transparency
<table>
<thead>
<tr>
<th>Development Objectives</th>
<th>DPL1 Prior Actions</th>
<th>DPL2 Prior Actions</th>
<th>DPL3 Prior Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing tax transparency</td>
<td>The government has taken steps to implement some of the Global Forum’s peer, review phase 1, as evidenced by (i) signing of double taxation conventions with 10 countries; (ii) signing of the Agreement for Tax Cooperation and the Exchange of Information Relating to Taxes with the United States; (iii) the enactment of Law 33, which empowers the DGI to obtain information for the purposes of complying with any international agreement that provides for the exchange of information in tax matters, regardless of the relevance of the information for domestic tax purposes; and (iv) enactment of Law 2 of 2011.</td>
<td>The government, through DGI’s Subdirección de Intercambio de Información Tributaria has effectively exchanged tax information with foreign tax jurisdictions by responding to 21 exchange of information requests, in accordance with Law 2 of February 1, 2011, and its corresponding tax information sharing obligations, as evidenced by DGI’s Note 201-01-8458 dated December 13, 2012.</td>
<td>The government has adopted a custody regime for bearer shares to facilitate the identification of the ownership of the said type of shares.</td>
</tr>
<tr>
<td>Modernizing public sector procurement</td>
<td>The government has taken steps to improve the efficiency and transparency of its national procurement system, as evidenced by the implementation of a new e-procurement platform, PanamaCompra (version 2.0), including the core system for publication and receipt of bidding offers, which is currently being used by the central government.</td>
<td>The government, through its Dirección General de Contrataciones Públicas, within the e-procurement platform PanamaCompra, has introduced new mandatory framework agreements for all Public Entities since April 2011 and published all framework agreements signed in years 2011 and 2012.</td>
<td></td>
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</tbody>
</table>

**Strengthening social transfer programs**

The government has taken the following measures to increase the outreach of its key social protection programs: It improved the criteria to evaluate the eligibility of older citizens for the 100 a los 70 program. The government, through MIDES, has adopted a policy and issued regulations for the better targeting of beneficiaries of the 100 a los 70 program. 
### Development Objectives vs Prior Actions

<table>
<thead>
<tr>
<th>Development Objectives</th>
<th>DPL1 Prior Actions</th>
<th>DPL2 Prior Actions</th>
<th>DPL3 Prior Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>the targeting of beneficiaries under its Red de Oportunidades conditional cash transfer by (i) eliminating ineligible households enrolled in the program; and (ii) enrolling 3,000 new households, eligible as per the proxy means test.</td>
<td>Improved the operating rules and enhanced the proper targeting of impoverished and vulnerable beneficiaries under its 100 a los 70 cash transfer program, through the enactment of Law 86 of 2010.</td>
<td>Program including provisions (i) to verify compliance with beneficiaries’ coresponsibilities and processes for entry to and exit from said program; (ii) to incorporate beneficiaries in the Registro Único de Beneficiarios; and (iii) to formally incorporate the Secretaría Ejecutiva del Programa 100 a los 70 into MIDES</td>
<td></td>
</tr>
<tr>
<td>Established the Beca Universal scholarship program through the enactment of Law 40 of 2010 and started implementing said scholarship program in public secondary schools during 2010.</td>
<td>The government, through the Institute for Training and Use of Human Resources, has expanded the Beca Universal scholarship program to include grades 1 to 6 in all the borrower’s public schools.</td>
<td>The government has taken steps to establish a monitoring and evaluation system for the Beca Universal program by including individual-based questions on scholarship benefits into the 2013 Encuesta de Propósitos Múltiples.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>The government has created the Ángel Guardián program, a social assistance program for people with severe disabilities who are in extreme poverty and a vulnerable dependent condition.</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** World Bank 2016b.

**Note:** ANIP =; DGI = Data Gaps Initiative; DPL = development policy loan; ITBMS = Impuesto a las Transferencias de Bienes Corporales Muebles y la Prestacion de Servicios; LTU = Large Taxpayer Unit; MIDES = Ministry of Social Development.
## Appendix D. Links between Prior Actions and Analytical Underpinnings

Figure D.1.

### Objectives

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Pillars</th>
<th>Main Prior Actions</th>
<th>Results Indicators</th>
<th>Analytical Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing fiscal space</td>
<td>RM and Transparency</td>
<td>1. Increasing revenue/GDP to 12%</td>
<td>Appendix A. Increasing revenue/GDP to 12%</td>
<td>OECD Peer review Phase I</td>
</tr>
<tr>
<td>Improving the efficiency of public spending</td>
<td>Modernizing procurement practice (PanamaCompra)</td>
<td>1. Improving targeting of CCT Red Oportunidades</td>
<td>Appendix E. Tax tribunal, magistr, tax</td>
<td></td>
</tr>
<tr>
<td>Improving fiscal management</td>
<td>Strengthening Institutional arrangements for debt management</td>
<td>1. Started design MTDS and issuance of Treasury notes</td>
<td>Appendix D. Double taxation agreement</td>
<td></td>
</tr>
<tr>
<td>Strengthening social programs</td>
<td>Expanding and Strengthening social transfer programs</td>
<td>1. Improving targeting of CCT Red Oportunidades</td>
<td>Appendix E. Tax tribunal, magistr, tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Improved rules and targeting of a new program for the poor elderly</td>
<td>Appendix E. Tax tribunal, magistr, tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Establish Becca Universal cash program for poor students and expand to secondary level</td>
<td>Appendix E. Tax tribunal, magistr, tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Establish Programa Ángel Guardián, a social</td>
<td>Appendix E. Tax tribunal, magistr, tax</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Independent Evaluation Group author’s team.
Appendix E. Panama’s Sovereign Credit Ratings

International Credit Rating Agencies Ratings of Panama

Figure E.1. Panama Sovereign Credit Rating by S&P, in grades

![S&P Rating Chart](chart1.png)

Note: S&P = Standard & Poor’s Global Ratings.

Figure E.2. Panama Sovereign Credit Rating by Moody, in grades

![Moody Rating Chart](chart2.png)

Figure E.3. Panama Sovereign Credit Rating by Fitch, in grades