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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$300 MILLION TO

REPUBLIC OF PANAMA

FOR THE

PANAMA PANDEMIC RESPONSE AND GROWTH RECOVERY DEVELOPMENT POLICY LOAN

November 13, 2020

Macroeconomics, Trade and Investment and Education Global Practices
Latin America and Caribbean Region

Republic of Panama

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 30, 2020)

PAB 1.00 = US$1.00

ABBREVIATIONS AND ACRONYMS

AIG	Governmental Innovation Agency (*Agencia de Innovación Gubernamental*)	IPSAS	International Public Sector Accountability Standards
AG	Guardian Angel *(Ángel Guardián)*	ISTMO	Integrated Financial Management System *(Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa)*
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism	LAC	Latin America and Caribbean
ASA	Advisory Services and Analytics	LAYS	Learning-Adjusted Years of Schooling
ASEP	Regulatory Authority for Public Services (*Autoridad Nacional de los Servicios Públicos*)	LDP	Letter of Development Policy
BCIE	Central American Bank for Economic Integration (*Banco Centroamericano de Integración Económica*)	LPG	Liquified Petroleum Gas
BEPS	Base Erosion and Profit Shifting	LTU	Large Taxpayer Unit
BNP	National Bank of Panama *(Banco Nacional de Panamá)*	MEDUCA	Ministry of Education (*Ministerio de Educación*)
CA	Central America	MEF	Ministry of Economy and Finance (*Ministerio de Economía y Finanzas*)
CAD	Current Account Deficit	MiAmbiente	Ministry of Environment (*Ministerio de Ambiente*)
CCT	Conditional Cash Transfers	MIDES	Ministry of Social Development *(Ministerio de Desarrollo Social)*
CONADAF	National Committee for Family Farming (*Comité Nacional de Agricultura Familiar*)	MIGA	Multilateral Investment Guarantee Agency
COONAPIP	National Coordinators of Indigenous Peoples of Panama (*Coordinadora Nacional de Pueblos Indígenas de Panamá)*	MINGOB	Ministry of Government (*Ministerio de Gobierno*)
COVID-19	Coronavirus Disease	MINSA	Ministry of Health *(Ministerio de Salud)*
CPF	Country Partnership Framework	MLTD	Medium- and Long-Term Debt
CSS	Social Security Agency *(Caja de Seguridad Social)*	MSME	Medium-, Small- and Micro-enterprises
DGCP	Directorate General for Public	NGO	Nongovernmental Organization

	Procurement (*Dirección General de Contratación Pública*)
DGI	Directorate General for Taxes *(Dirección General de Impuestos)*
DNFBP	Designated Non-Financial Business and Professions
DPF	Development Policy Finance
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FFL	Family Farming Law
GAFILAT	Financial Action Task Force of Latin America (*Grupo de Acción Financiera de Latinoamérica*)
GDI	Graduation Discussion Income
GDP	Gross Domestic Product
GF	Global Forum on Transparency and Exchange of Information for Tax Purpose
GLE	General Law of the Environment
GNI	Gross National Income
GoP	Government of Panama
GRS	Grievance Redress System
HCI	Human Capital Index
HIC	High Income Country
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDB	Inter-American Development Bank
IFI	International Financial Institutions
INEC	National Institute of Statistics and Census *(Instituto Nacional de Estadística y Censo)*
IMAE	Monthly Economic Activity Index *(Índice Mensual de Actividad*

OECD	Organization for Economic Cooperation and Development
PACE	National Program for Complementary School Feeding *(Programa de Alimentación Complementaria Escolar)*
PAHO	Pan American Health Organization
PEFA	Public Expenditure and Financial Accountability
PEG	Strategic Government Plan (*Plan Estratégico de Gobierno*)
PFM	Public Financial Management
PLR	Performance and Learning Review
PPP	Public Private Partnerships
PPS	Panama Solidarity Plan *(Plan Panamá Solidário*)
RdO	Network of Opportunities (*Red de Oportunidad)*
RFI	Rapid Financing Instrument
RUAF	Family Farmers Single Registry *(Registro Único de Agricultores Familiares)*
SCD	Systematic Country Diagnostic
SFRL	Social and Fiscal Responsibility Law
SDR	Special Drawing Rights
SIA	Inter-institutional Environmental System *(Sistema Interinstitucional Ambiental)*
SINAP	National System of Protected Areas *(Sistema Nacional de Áreas Protegidas de Panamá)*
SNAPP	National Secretariat for Public-Private Partnerships (*Secretaría Nacional de Asociaciones Publico Privada*)
SOE	State-Owned Enterprises
SSINGEI	Sustainable System of National Greenhouse Gases Inventories
TSA	Treasury Single Account
UBO	Ultimate Beneficial Ownership
UNICEF	United Nations Children's Fund
VAT	Value Added Tax
VRE	Variable Renewable Energy
WB	World Bank

	Económica)		
IMF	International Monetary Fund	WBG	World Bank Group
IP	Indigenous Peoples		

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REPUBLIC OF PANAMA

PANAMA PANDEMIC RESPONSE AND GROWTH RECOVERY DEVELOPMENT POLICY LOAN

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P174107	Yes	1st in a series of 2

Proposed Development Objective(s)

The objective of this operation is to protect human capital during the COVID-19 crisis, while strengthening institutions to foster human capital accumulation and support a more inclusive and sustainable economic recovery.

Organizations

Borrower: REPUBLIC OF PANAMA

Implementing Agency: MINISTRY OF ECONOMY AND FINANCE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**300.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	300.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
Results Indicator #1: Health regions (*regiones de salud*) with verified institutional capacity in MINSAs' facilities to provide access to prescribed medicines for all users; and to distribute and prioritize COVID-19 vaccines to safeguard the health of the high-risk groups conditional on the COVID-19 vaccine being available in the international market (number)[1]	Baseline: For prescribed medicines, percent of population reporting access to all prescribed medicines by health region (2019).[2] For COVID-19 vaccines, 0 (out of 16) health regions nationwide (2020)	Target: For prescribed medicines, at least 12 (out of 16) health regions nationwide have improved (2022). For COVID-19 vaccines: 16 (out of 16) health regions nationwide (2022)
Results Indicator #2: Students in public schools in *Plan Colmena* using at least one of the education technologies solutions provided by the government to support learning during school year 2022 (unique users, at least one access per month) (number)	Baseline: 0 (2019)	Target: 50,000[3] (2022)
Results Indicator #3: Proportion of population aged 18 or older covered by a temporary social protection program (percentage)	Baseline: 22 (2020)	Target: At least 10 (2022)[4]
Results Indicator #4: Legal persons included in the ultimate beneficial ownership (UBO) registry and risk-based verifications conducted (percentage)	Baseline: 0 (2019)	Target: 80% of legal persons registered, and 100% of high-risk persons inspected (2022)
Results Indicator #5: Central government institutions using e-procurement system (*PanamaCompra 3)* (number)	Baseline: 0 (2019)	Target: 25 (2022)
Results Indicator #6: Publication of consolidated financial statements (number)	Baseline: 0 (2019)	Target: at least 1 (2022)
Results Indicator #7: Private sector financing mobilized to fund infrastructure services under the PPP law (US$)	Baseline: 0 (2019)	Target: 500 million (2022)
Results Indicator #8: Family farmers benefiting from the Family Farming National Fund (number and percentage)	Baseline: 0 (2019)	Target: 5,000 of which 40% are women-led and 40% are Indigenous Peoples (2022)
Results Indicator #9: Total area of national protected areas under enhanced conservation and social inclusion	Baseline: 0 (2019)	Target: 1,000,000 (2022)

[1] The measurement instrument for access to prescribed medicines by in MINSA's facilities is the User Satisfaction Survey. This is a nationally representative survey conducted annually by the MINSA's Monitoring and Evaluation Department, Health Services Provision Division. The sampling design for this survey allows to estimate reliable statistics by health region. The question that will be used to measure user's perceptions on prescribed medicines availability is the following: "Did you receive all the medicines that were prescribed for you?". The measurement instrument for the institutional capacity to distribute and prioritize COVID-19 vaccines will be administrative data by health region. Conditional on the COVID-19 vaccine being available in the international market is defined as having one or more vaccines for COVID-19 approved and in distribution by the COVAX mechanism.

[2] Bocas del Toro (63.0%); Chiriquí (57.0%); Coclé (66.0%); Darién (54.5%); Herrera (56.0%); Ngäbe Bugle (87.0%); Panamá Norte (73.7%); Panamá Oeste (82.0%); San Miguelito (72.3%); Veraguas (77.0%); Guna Yala (88.0%); Los santos (65.0%); Panamá Este (84.0%); Colon * (53.1%); Panamá metro (n.a.); and Distrito Arraiján (n.a.). Data for Panama metro and Distrito Arraiján health regions are not available as there two health regions were created after the 2018-2019 User Satisfaction Survey was administered.

[3] The estimated total number of students in public schools in *Plan Colmena* for school year 2020 is 351,834 distributed across: 219,009 (primary), 83,557 (lower secondary), 44,274 (secondary), and 4,994 (youth and adults). The targeted results indicator is at least 50,000 students, thus reaching approximately 14 percent of total students in the public system.

[4] The target results indicator is lower than the baseline as it is expected that when the economy begins to recover, some groups currently benefiting from *Panama Solidario* will no longer require assistance (e.g. suspended formal workers).

regulation (hectares)		
Results Indicator #10: Programs registered in SINIP that have been designed in consultation with the IP Council[5] (number)	Baseline: 0 (2019)	Target: 5-10 (2022)
Results Indicator #11: Energy awarded to variable renewable sources in energy auctions (percentage) [6]	Baseline: 31.7(2016) [7]	Target: 47 (2022)
Results Indicator #12: GHG emissions regulated under economy-wide[8] policy instruments (percentage)	Baseline: 0 (2019)	Target: 100 (2022)

[5] Only programs located in Indigenous territories are expected to be consulted with the IP council. Thus, the target must be assessed against the number of programs registered in SNIP that are located in Indigenous territories and not the total number of programs.
[6] To avoid distortions in the indicator resulting from power auctions –in which the system operator bids primarily power but could include some marginal energy purchases–, "Energy auction" is considered an auction in which the energy bided amounts to at least 10% of the annual energy demand of the country, which reached 8,413.29 GWh in 2019.
[7] Last energy auction prior Resolution AN-13242-Elec from April 4, 2019 was held in Panama in 2016.
[8] Economy-wide related to climate change policies refers to GHG emissions communicated on a national level without being assigned to a specific economic sector or policy area. *Reduce tu Huella* is an instrument that covers the full range of Panama's climate ambition and all GHG gases.

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE REPUBLIC OF PANAMA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation will support the Government of Panama (GoP) to protect human capital during the Coronavirus Disease (COVID-19) crisis and build a more inclusive and sustainable economy during the recovery phase.** The proposed $300 million operation is the first of two in a programmatic Development Policy Financing (DPF) series. The DPF series supports reforms organized around three pillars. Pillar A supports emergency measures aimed at protecting human capital during the COVID-19 crisis while laying the ground for improvement in institutions for human capital accumulation. Pillar B supports key policy and institutional reforms for rebuilding a more transparent and fiscally sustainable economy. Pillar C supports institutional reforms to improve agricultural productivity (with a focus on Indigenous Peoples) and to promote the adaptation and mitigation to climate change. The proposed DPF series, thus, support Panama's efforts to: (i) address key institutional weaknesses; and (ii) reduce long-term inequities; while (iii) supporting two key global public goods - combating illicit flows and contributing to adaptation and mitigation to climate change.

2. **Panama's exceptional growth over the past decades has not been accompanied by similar progress on social and institutional dimensions.** Panama is one of the few countries in Latin America and the Caribbean (LAC) to make progress in converging to the income per capita of more developed countries. In 2000, Panama's Gross Domestic Product (GDP) per capita accounted for 11 percent of the United States', while in 2019, it accounted for 24 percent. As a result, Panama income per capita is above the Graduation Discussion Income (GDI) and it is classified as a High-Income Country (HIC) under the World Bank classification. While poverty headcount (at US$ 5.5/day, purchasing power parity 2017) stood at approximately 13 percent in 2019, rural poverty surpassed 30 percent and poverty among Indigenous Peoples exceeded 44 percent. Education and health outcomes lag high- and middle-income countries significantly. Panama's Human Capital Index (HCI)[9] of 0.50 is lower than those of middle-income countries such as Colombia (0.60), Peru (0.61), and Ecuador (0.59). The strength of most Panamanian institutions is also below that of countries with similar levels of income.[10] For instance, compared to its structural peers[11], Panama performs at the bottom 25th percentile of all political institutions sub-indices (e.g. fundamental rights and power by social group) and of all public sector institutions (i.e. regulatory enforcement, regulatory governance, regulatory quality, and government effectiveness), with the exception of efficiency of government spending, which ranks in the 25-50th percentile. The strength of other institutions such as labor and legal institutions are more uneven, but in most of them Panama is below the 50th percentile.

[9] The index measures the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where she lives. It is designed to highlight how improvements in current health and education outcomes shape the productivity of the next generation of workers, assuming children born today experience over the next 18 years the educational opportunities and health risks that children in this age range currently face.

[10] These results are taken from Panama's Rapid Institutional Analysis constructed by using a four-step analytical process: (i) Defining the subject of the analysis/designing the conceptual framework, building upon the World Development Report, WDR2017 "Governance and the Law" and combining it with recent research on institutional design and institutional change; (ii) Undertaking a benchmarking 'distance to frontier' exercise to map empirically main institutional weaknesses (quantitative assessment); (iii) Adopting a problem-driven approach to develop an 'institutional heatmap' and select the sub-set of institutional challenges that are most relevant given the country's development challenges; and (iv) Building on the heatmap, elaborate on the causal mechanisms through which institutional weaknesses affect development outcomes (qualitative assessment).

[11] The structural peer countries are: Costa Rica, Bulgaria, Croatia, Uruguay and Dominican Republic, which are taken from the 2015 Systematic Country Diagnostic (SCD) Report No. 93425-PA.

3. **The World Bank Group has supported the country's efforts to address social inequities and institutional fragilities.** In order to address poverty and social inequities, the Bank has active projects on social protection (Strengthening Social Protection and Inclusion System, P155097), and Indigenous Peoples (Support for the National Indigenous Peoples Development Plan, P157575). These projects have been helping the country to increase the efficiency of the social protection system, and supporting the implementation of the national development plan of Indigenous Peoples. In order to improve the country's institutions, current and recently closed projects have had at least one component or activity focused on strengthening institutions in a specific sector.

4. **Progress in addressing social inequities and institutional fragilities has been halted by the COVID-19 crisis, which hit Panama particularly hard due to its geographical position, urban density, and high informality.** Panama has reported one of the largest cases per capita of COVID-19 infections in LAC. As of November 1st, 2020; 3,126 cases per 100,000 habitants have been reported and 2,706 deaths have been registered (63 per 100,000 habitants). The country's geographic position in the middle of the American continent and its connecting role between Asia and the American continent makes it especially vulnerable to COVID-19 transmission. Dense urban areas and high levels of informality also contributed to the spread of the pandemic. The government's response to the pandemic has been agile, including the introduction of strong containment measures, reallocating spending, and mobilizing resources to fund the health response and programs to support vulnerable segments of the population. A COVID-19 situation room was created in January 2020, and a Health System Operational Plan to Prevent and Control COVID-19 was launched. A national emergency was declared on March 13, 2020, only five days after the first case was reported. Also, in March 2020, tourism businesses were closed, school and university classes and flights were suspended, an emergency hospital was built in less than a month, and a very restrictive curfew was imposed. In August 25, the GoP laid out a gradual and phased plan for reopening the economy with restrictions based on the health risk of each sector.

5. **The impacts of the COVID-19 crisis on human capital and poverty have intensified long-standing inequities and reversed gains achieved over the past decades, especially for women, Afro-descendants, and the Indigenous population.** The COVID-19 pandemic has disrupted the provision of essential health and education services, affecting livelihoods and food security, posing a risk to nutrition, and reducing the ability of households to invest in human capital. The pandemic has left almost one million students out of school, which could translate to a reduction of up to 8.4 percent in the average lifetime earnings of those students unless it is mitigated.[12] Poor and vulnerable groups are bearing a disproportionate cost of the crisis as they are more likely to work in jobs that cannot be done remotely or work in the informal sector, which are not covered by the regular social safety nets in the country. For instance, 45 percent of workers in the non-agricultural sector are informal. Moreover, poverty is expected to increase by at least 3.4 percentage points, bringing the poverty rate from 13 percent to 16.4 percent of the population.[13] Although urban areas are more exposed to the COVID-19 crisis, poverty in rural areas is expected to increase by almost twice as much as in urban areas (5.3 vs 2.5 percentage points respectively), since there are more vulnerable people[14] in rural areas. The sectors most affected by COVID-19 include tourism, construction, logistics, and commerce, which jointly employ close to 60 percent of all formal workers and indirectly generate work for about 70 percent of the informal workers. These sectors also indirectly employ 50 percent of women, 70 percent of Indigenous Peoples, and 56 percent of Afro-descendants.

6. **The impact of the COVID-19 crisis on economic activity and fiscal position was severe and it will take time for**

[12] *Simulating the Potential Impacts of COVID-19 School closures on Schooling and Learning Outcomes: A set of Global Estimates (June 2020). World Bank Group. Education Global Practice*

[13] Poverty is defined using the US$5.5 per capita per day poverty line at 2011 Purchasing Power Parity (PPP) prices. Source: WB estimations.

[14] People living above US$ 5.5/day but under US$ 13/day.

the country to recover. The COVID-19 crisis hit Panama hard and weakened the economy. Panama's two leading sectors in growth – construction and mining – were shut down as a result of the containment measures. Panama's main services – transport and communications – were also affected by the closing of borders and airports and by the decline in global trade. GDP is expected to contract by 8.1 percent in 2020 and rebound to 5.3 percent in 2021 before gradually converging towards an estimated 4 percent potential growth. It is estimated that it will take between three to four years for Panama's GDP to reach the level it was in 2019. The overall fiscal deficit is expected to exceed 7 percent of GDP in 2020, bringing the public debt close to 60 percent of GDP in 2020. The caps and limits set on fiscal deficit in the Social and Fiscal Responsibility Law (SFRL)[15] were appropriately waived for 2020 due to COVID-19. Financing needs are estimated at 13 percent of GDP and International Financial Institutions (IFIs), including the World Bank, are expected to cover 23 percent of this total and private sector issuances funding the rest (consistent with Panama's investment level credit rating). To meet these needs, Panama issued bonds worth US$ 4.75 billion in 2020.

7. **The severe and long-lasting impacts of the COVID-19 crisis reinforces the need to help Panama through the reforms supported by this DPF series, which aim to protect the poor and vulnerable from the impacts of the crisis and address Panama's low levels of human capital and institutional weaknesses, consistent with IBRD's policies for countries above the GDI.** For example, health policy reforms supported by this series aim to make medicines cheaper and thus more accessible for the poor and vulnerable, while education reforms aim to increase the use of Information and Communication Technology (ICT) to accelerate learning, particularly among lagging poor and vulnerable students. Reforms to create a Public Private Partnership (PPP) legal framework and the associated government agency, as well as the registry of ultimate beneficial ownership (UBO) will strengthen institutions on regulatory governance, quality, and enforcement, and government effectiveness. Procurement reforms supported by the DPF series seek to strengthen core institutions to improve the effectiveness of government spending. Policies to support family farming will have a special focus on woman-led households to help close the gender gap in agriculture. Lastly, reforms on land rights for Indigenous Peoples will strengthen institutions on property rights and registration.

8. **This DPF series also supports reforms considered global public goods and advances the climate change adaptation and mitigation agenda, consistent with both the IBRD's policies for countries above the GDI and the Bank's climate change commitments.** On the global public goods agenda, this operation supports the creation and operationalization of the UBO registry, which is a critical reform for anti-money laundering and combating the financing of terrorism and international tax evasion. The second operation supports the development of a COVID-19 vaccine strategy, which is also a global public good. On climate change, the DPF series support reforms to incorporate energy and environmental considerations in procurement processes, increase the competitiveness of renewable energies, and create the inventory and registry of carbon emissions to allow the future creation of a carbon market.

9. **Panama ranks 14th among countries most exposed to multiple impacts from climate change based on land area[16], which exacerbates its development challenges.** Climate change is altering weather patterns and affecting the availability of water resources. This poses severe consequences for the economy, and specifically to the areas surrounding the Panama Canal, which is highly dependent on the sustainable management of forests and natural resources. The canal's surrounding areas have already seen a temperature rise of an estimated 1.1 Celsius, and this

[15] The SRFL foresees limits for the fiscal deficit (less than 2 percent of GDP), net debt (less than 40 percent of GDP), primary balance and current savings (both must be positive). All limits are defined for the non-financial public sector and debt is net of the assets held by the *Fondo de Ahorro de Panamá*. In the case of natural disasters, national emergencies or when GDP growth is below 1 percent, the government can request to parliament a waiver of all limits. If the waiver is granted, the fiscal deficit will be reduced in a gradual manner by one third every year.

[16] Table 1.1 in Dilley et al (2005) *Natural Disaster Hotspots: A Global Risk Analysis*. Disaster Risk Management Series. No. 5

could reach up to 3.6 Celsius by 2100, posing significant impacts on water runoff and extreme droughts. In addition, the canal area has been impacted by the recent intensification of El Niño events. Fifteen percent of Panama's area and 12.5 percent of its total population are vulnerable to two or more hazards. Expected impacts from climate change include, among others, increased incidence and intensity of crop failure; amplified intensity of heat stress on crop production and vulnerable population; loss of biodiversity and forests; reduced water quality and quantity; and increased incidence of climate-related human health impacts. Extreme weather events attributable to climate change such as intense storms, floods, and droughts are negatively affecting the livelihoods of people living in rural and coastal areas. Investments in climate-smart agriculture and green energy can become a driver to reactivate the economy and create jobs after the crisis.

10. **The operation is aligned with the operation is aligned with the World Bank Group COVID-19 Crisis Response Approach Paper**[17] **and builds on reforms supported by previous operations, and is part of a broader support effort by IFIs.** The operation supports reforms on health, education, and social protection to protect human capital during the relief stage under the Approach Paper's second pillar on "Protect poor and most vulnerable." The operation also supports reforms to restore human capital and promote inclusion and economic empowerment during the restructuring stage. Last, it supports reforms to strengthen institutions for revenue collection, transparency in business transactions and public procurement, and to mobilize private sector finance for development under the fourth pillar on "Strengthen policies, institutions and investments for rebuilding better" during the resilient recovery stage. This DPF series builds upon the reforms supported by the previous DPF series (Programmatic Shared Prosperity DPF - P166159). For example, the previous series supported the legal framework for Anti-Money Laundering and Combating the Financing of Terrorism **(**AML/CFT), while the proposed series is supporting the enforcement of these rules. Finally, this DPF series is part of a joint effort by IFIs that includes parallel financing from the Central American Bank for Economic Integration (BCIE) for US$250 million (prepared together with the World Bank); an International Monetary Fund (IMF) Rapid Financing Instrument (US$515 million) approved in April 2020; two operations for a total of US$400 million from the Development Bank of Latin America (CAF); and an Inter-American Development Bank (IDB) budget-support operation (US$350 million).

11. **The overall risk of the proposed DPF is *substantial*, emanating mainly from macroeconomic, stakeholders and implementation capacity risks.** The authorities are mitigating these risks through the gradual implementation of key measures, particularly in the transparency agenda, and engagement and consultations on themes such as Indigenous Peoples, environment, and procurement. The government has also mobilized technical assistance to reinforce sectoral policies (many led by the World Bank, the IMF and other IFIs).

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

12. **Prior to the COVID-19 pandemic, Panama was growing at rates well above the regional average, led by construction, transport and communication.** From 2014 to 2019, Panama's GDP grew at an average rate of 4.6 percent, while the LAC region grew, on average, at 0.8 percent. Growth lost momentum after 2018 as large investment projects, including those related to the expansion of the canal, were completed but remained around 3 percent. As a result, Panama has been one of the few countries in LAC to make progress in converging to the income per capita of more developed countries. In 2000, Panama's GDP per capita accounted for 11 percent of the United

[17] *"*Saving lives, Scaling-up Impact and Getting Back on Track*", June 2020 (*http://documents1.worldbank.org/curated/en/136631594937150795/pdf/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track.pdf)

States', while in 2019, it accounted for 24 percent. Services, mainly transport, communications and financial services, have been the primary driver contributing with almost two-thirds of total growth. Industry came in second place, pushed by construction throughout the period and mining recently, after the world's largest new copper mine opened in 2019. From the demand side, growth has been balanced, with consumption as a primary driver, but with important contributions from investment and net exports, particularly in 2018-2019.

13. **Panama has been one of the hardest hit countries in LAC by the COVID-19 pandemic.** Panama registered its first case on March 8, 2020; and by November 1st 2020; 134,336 cases have been detected and 2,706 deaths have been registered. Taking the COVID-19 cases and fatalities in relation to the population, Panama has the highest case count and fifth highest mortality rate in LAC. Testing capacity in Panama has been one of the highest in the region, with 145.5 tests administered per thousand people on a cumulative basis as of end-October 2020.[18]

14. **Although the effects of the COVID-19 pandemic have not yet been fully captured, high-frequency data already show a large and consistent fall in economic activity in 2020.** GDP growth in the first quarter of 2020, which captured only the beginning of the pandemic, dropped to 0.4 percent compared to 3.1 percent in the same period of 2019. The monthly economic activity indicator (*Indice Mensual de Actividad Económica*, IMAE) dropped 40.9 percent in May and 13.9 percent in the first five months of 2020. Energy consumption dropped 4 percent overall in the first half of the year, with more accentuated declines in commercial and industrial consumption (22.4 and 27.4 percent, respectively). Fuel sales were down 38.3 percent by July, while property registration, a proxy for sales, was down 45.1 percent in the same period. High-frequency alternative data such as Google mobility reports showed a stark decline of 87 percent in time spent in workplace sites as of April 9, 2020 compared to the baseline[19], which then leveled off to a decline of 45 percent in September 2020.

15. **The current account deficit (CAD) has been declining due to lower imports, reflecting lower investment and economic activity.** The CAD declined from 8 percent of GDP in 2014 to 5 percent of GDP in 2019, while imports of goods and services went from 50 to 41 percent of GDP. Services exports are almost the same size as goods exports (21 and 22 percent of GDP in 2019 respectively), with transport and travel services accounting for roughly 80 percent of net services exports. External financing requirements have been declining, reaching 11.2 percent in 2019 after peaking at 20.9 percent in 2016, and have been covered mostly by Foreign Direct Investment (FDI) and medium- and long-term debt (MLTD). Net FDI was at 6.3 percent of GDP in 2019, while MLTD inflows were at 10.2 percent of GDP. The COVID-19 pandemic has reduced the trade deficit in goods, as imports dropped more than exports. Imports of goods dropped 40.8 percent up to July, while exports dropped by 8.1 percent. Data for trade services and the capital account in 2020 is not available, which makes it difficult to gauge the overall effect of the COVID-19 pandemic in the external accounts. Sovereign risk for Panama remains well below LAC averages – 176 basis points versus 485 basis points as of October 30,2020.

16. **As a fully dollarized economy, Panama has been successful at consistently keeping inflation low, but the absence of a lender of last resort makes the financial sector vulnerable to liquidity crunches.** Panama is a fully dollarized economy with no central bank and thus with limited scope for monetary policy. The absence of a lender of last resort makes banks vulnerable to liquidity squeezes at times of economic distress. Banks hold relatively high levels of liquid assets in normal times (around 55-60 percent of deposits) and they have increased their holding by 54 percent as of July in response to the COVID-19 pandemic. Nonetheless, their funding is partly dependent on external sources that could dry up if the crisis worsens. To address this concern, the GoP is setting up a liquidity fund

[18] All COVID-19 data is sourced from Panama's Health Ministry and Our World in Data.
[19] A baseline day represents a *normal* value for that day of the week. The baseline day is the median value from the five-week period Jan 3 – Feb 6, 2020. Accessed at *https://www.gstatic.com/covid19/mobility/2020-05-09_PA_Mobility_Report_en.pdf on May 18*, 2020.

with IMF and Multilateral Investment Guarantee Agency (MIGA) support to be operated by the National Bank of Panama (*Banco Nacional de Panamá)* to (i) provide emergency liquidity to the domestic financial sector, as banks offer grace periods on loan repayments through the end of 2020, and (ii) provide loans to companies in the context of constrained credit markets to allow them to continue operating or resume operations and help maintain employment levels. Inflation closed 2019 at -0.1 percent and prices declined further by 0.8 percent as of April of 2020. Furthermore, there is no evidence that the pandemic is affecting prices or food prices so far, since food prices have dropped by 0.8 percent year-over-year as of April of 2020. Interest rates are higher in Panama than in the United States (U.S.), reflecting the relatively higher risk of the country, but they follow U.S. monetary policy movements. As a result, interest rates have gone down, although less for consumer lending. Lending rates for construction and industry declined from 6.6 percent in January 2019 to 6.2 percent in June 2020, while rates for personal and car loans did not change, remaining at 8.7 and 7.5 percent and mortgage rates went up from 5.6 percent to 5.8 percent.

17. **The banking sector has been solid overall; loans go mostly to nonfinancial companies and consumers, but with a significant share to non-residents.** The minimum capital to asset ratio requirement is 8 percent of total capital following Basel III standards on capital and liquidity, but the actual ratio is at 12.5 percent. Non-performing loans is low at 2 percent of the total credit. Private sector credit has been growing at a moderate rate since 2016, posting a 9 percent growth in 2019. Non-financial companies accounted for 35.8 percent of the loans, while other sectors – mainly households – accounted for 41.3 percent of the loans. Non-residents accounted for 18.3 percent of loans in 2019. The total stock of domestic credit to private sector was 80.1 percent of GDP in 2019, higher than the regional average (75.2 percent) and structural peers, partially reflecting the credit taken by non-residents.

18. **Panama has recorded moderate but increasing budget deficits for the last six years, driven by declining revenues and increasing wage bill, which lead to an increase in public debt levels**. Panama recorded an average budget deficit of 2.5 percent of GDP from 2014 to 2019, and this deficit was larger in the last two years, even before the impact of the COVID-19 pandemic. In addition, in 2019, the government recognized and cleared arrears in the amount of 1.8 percentage points of GDP from 2015 to 2018, related to capital expenditures that were not properly registered and paid to avoid breaching the deficit limit. Total revenues dropped from 20.5 percent of GDP in 2014 to 18.4 percent of GDP in 2019, with tax revenues declining from 15.6 to 13.8 percent of GDP in the same period. Total expenditures declined from 2014 to 2019 (from 23.6 to 21.5 percent of GDP respectively) due to lower capital investments after the completion of the Panama City metro, but current expenditures increased from 2014 to 2019 (from 15.9 to 16.2 percent of the GDP respectively) due to higher payroll, especially on education. As a result of the deficit and arrears, the public debt increased from 36.5 percent of GDP in 2014 to 46.4 percent of GDP in 2019 but remains in the middle range among its structural peers.

19. **The COVID-19 pandemic has worsened Panama's fiscal position.** Although the full impact of the pandemic on the fiscal accounts is not yet known, the preliminary numbers point to a sharp decline in revenues, while showing increased demand for expenditures, especially on health and social protection, leading to an increase in the fiscal deficit and the public debt. General government current revenues declined by 34 percent from January to June of 2020 compared with the same period in 2019, and by 38 percent with respect to the budget forecast, affected by the economic slowdown and tax deferment introduced in response to the emergency. While capital spending has declined 43 percent with respect to the previous year, current spending remained broadly unchanged pressured by emergency related spending. For example, *Panama Solidario*[20]*,* an economic support program*,* costed approximately US$66 million per month in the last two months. Spending reallocations - US$500 million from current expenditure

[20] The *Plan Panamá Solidario* is a temporary economic support program, which includes three types of support for vulnerable households – food baskets (for the rural and most isolated areas of the country), physical vouchers (for suburban areas with relatively good access to markets), and digital vouchers (for urban areas with good access to markets). Please see section 4.2 for more details.

and US$1.5 billion from capital expenditures - to supplement health and social protection, as well as tapping into its rainy-day fund (*Fondo de Ahorro de Panamá*) has helped finance spending. As a result of these dynamics, the fiscal deficit of the non-financial public sector could increase from 3.1 percent of GDP in 2019 to almost 7.7 percent in 2020 and debt could reach closer to 60 percent of GDP. Panama has a history of waiving and amending the fiscal deficit targets, which shows that these rules have some impact but at the same time they did not serve as a proper medium-term fiscal anchor. For 2020, however, the caps and limits set on fiscal deficit in the SFRL were appropriately waived due to COVID-19.

Table 1 - Panama: Key Economic Indicators and Projections: 2018 – 2025[21]

Panama: Selected Economic and Financial Indicators, 2018-2025

	2018	2019	2020	2021	2022	2023	2024	2025
Real Economy			*(Percent change, unless otherwise stated)*					
Real GDP	3.7	3.0	-8.1	5.3	3.8	4.0	4.0	4.0
GDP per capita (USD, nominal)	3.2	0.9	-10.2	4.4	3.9	4.6	4.7	4.7
Real GDP Growth			*(Percent change, unless otherwise stated)*					
Private Consumption	3.7	3.0	-13.1	9.4	3.6	3.8	3.8	3.8
Gross Fixed Investment	4.3	-0.9	-17.6	10.0	9.4	4.9	4.9	4.9
Exports	3.7	3.0	-8.0	4.3	2.7	3.5	3.5	3.5
Imports	5.4	-0.1	-14.2	8.7	4.0	3.8	3.8	3.8
GDP Deflator	0.9	-0.4	-0.9	0.6	1.4	2.2	2.2	2.2
CPI (year-average)	0.8	-0.4	-0.9	0.5	1.5	1.5	1.5	1.5
Fiscal Accounts			*(Percent of GDP, unless otherwise stated)*					
Expenditures	22.4	21.5	23.5	22.0	21.3	21.2	21.5	21.4
Revenues	19.6	18.4	15.9	16.8	18.4	19.2	19.6	19.6
Non-Financial Public Sector Balance	-2.9	-3.1	-7.7	-5.2	-3.0	-2.0	-1.9	-1.8
Non-Financial Public Sector Debt	39.4	46.4	58.3	60.1	59.9	58.5	57.1	55.8
Balance of Payments			*(Percent of GDP, unless otherwise stated)*					
Current Account Balance	-8.2	-5.2	-1.4	-3.7	-4.3	-4.5	-4.5	-4.6
Imports, Goods and Services	44.4	41.0	37.2	39.0	39.2	38.8	38.7	38.5
Exports, Goods and Services	43.8	42.4	42.7	42.6	42.2	41.8	41.4	41.0
Net Foreign Direct Investment	7.9	6.3	1.9	3.9	4.2	4.4	4.4	4.4
Gross Reserves	6.4	4.4	4.6	5.1	5.7	6.3	6.4	6.4
Terms of Trade	0.0	-2.5	3.4	-0.7	-0.3	0.3	-0.3	-0.3
Exchange Rate (per USD, average)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other memo items								
GDP nominal in US$ (millions)	65,128	66,801	60,852	64,434	67,860	72,127	76,662	81,483

Source: National Institute of Statistics and Census/ Directorate of Statistics and Census *(Instituto Nacional de Estadística y Censo, Dirección de Estadística y Censo*), and World Bank projections and estimates (September 2020)

[21] Panama's international reserves are distinct from the standard concept of international reserves as the amounts reported refer to the net foreign assets of the largest state-owned bank. Given that Panama is a dollarized economy with no central bank or any other lender of last resort, the latest IMF staff report consider the level of reserves adequate.

Table 2 – Panama: Balance of Payment Financing Requirements and Sources: 2018-2025

	2018	2019	2020	2021	2022	2023	2024	2025
				(USD Millions)				
Financing Requirements	**9776**	**12044**	**9160**	**7410**	**6027**	**6366**	**7510**	**8319**
Current Account Deficit	5355	3500	824	2379	2925	3218	3456	3781
MLT debt amortizations, public and private	3394	6793	8336	5031	3103	3148	4054	4538
of which:								
Private sector	*1994*	*3336*	*4850*	*2040*	*2497*	*2318*	*2606*	*2479*
Public Sector	*1400*	*3457*	*3486*	*2992*	*606*	*831*	*1448*	*1678*
Financing Sources	**8117**	**11517**	**9160**	**7410**	**6027**	**6366**	**7510**	**8319**
Capital account	23	22	20	21	22	25	25	25
Net Foreign Direct Investment	5134	4201	1162	2531	2869	3606	3833	4074
Net Portfolio Investment	373	3181	1183	258	271	289	307	326
Public Sector flows	2587	4113	6795	4600	2865	2446	3345	3894
of which:								
Bonds	1709	3299	4750	2850	2165	2184	3315	3854
Banks	0	35	0	0	0	0	0	0
Multilaterals	878	779	2045	1750	700	262	30	40
BID	478	395	450					
WB	105	3	250					
CAF	279	367	400					
CABEI	17	14	250					
FMI	0	0	520					
Net Errors and Omissions	1027	1751	0	0	0	0	0	0
Change in reserve assets	-633	1227	122	-500	-600	-625	-350	-350
Memorandum items								
Nominal GDP (USD)	65,128.2	66,800.8	60,852.3	64,433.6	67,860.0	72,127.0	76,662.4	81,482.9

Source: National Institute of Statistics and Census/ Directorate of Statistics and Census *(Instituto Nacional de Estadística y Censo, Dirección de Estadística y Censo*), and World Bank projections and estimates (September 2020)

Table 3 – Panama: Fiscal Operations of the Non-Financial Public Sector: 2018-2025

Panama: Fiscal Operations of the Non Financial Public Sector	2018	2019	2020	2021	2022	2023	2024	2025
	(Percent of GDP, unless otherwise stated)							
Total Revenues and Grants	19.6	18.4	15.9	16.8	18.4	19.2	19.6	19.6
Tax Revenues	14.7	13.8	11.6	12.6	13.9	14.4	14.7	14.7
Taxes on Goods and Services	4.0	3.8	3.4	3.7	4.0	4.2	4.3	4.3
Direct Taxes	5.1	4.4	3.2	3.7	4.4	4.7	4.9	4.9
Social Security Contributions	5.6	5.6	5.0	5.2	5.4	5.4	5.4	5.4
Non-Tax Revenues	4.9	4.6	4.2	4.2	4.5	4.8	4.9	4.9
Expenditures	22.4	21.5	23.5	22.0	21.3	21.2	21.5	21.4
Current Expenditures	15.8	16.2	20.4	18.6	17.3	16.7	16.5	16.3
Wages and Compensation	4.8	4.8	5.6	5.4	5.1	5.1	5.1	5.1
Goods and Services	1.2	1.0	1.7	1.5	1.2	1.2	1.2	1.2
Interest Payments	1.8	1.9	2.4	2.6	2.5	2.2	2.0	1.8
Current Transfers	8.1	8.5	10.6	9.2	8.5	8.2	8.2	8.2
Pensions	5.2	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Social Assistance	0.3	0.2	0.5	0.4	0.3	0.3	0.3	0.3
Other Current Transfers	2.6	2.8	4.6	3.3	2.7	2.4	2.4	2.4
Capital Expenditures	6.6	5.3	3.1	3.4	4.0	4.5	5.0	5.0
Overall Balance	-2.9	-3.1	-7.7	-5.2	-3.0	-2.0	-1.9	-1.8
Primary Balance	-1.1	-1.3	-5.2	-2.6	-0.5	0.1	0.0	0.0
Government Financing	3.7	8.6	7.7	5.2	2.9	1.8	1.7	1.8
External (Net)	3.6	8.0	7.4	4.8	2.6	1.4	1.6	1.7
Domestic (Net)	0.2	0.6	0.3	0.4	0.3	0.4	0.1	0.1
Other memo items								
GDP nominal in LCU (Percent change)	4.7	2.6	-8.9	5.9	5.3	6.3	6.3	6.3

Source: National Institute of Statistics and Census/ Directorate of Statistics and Census *(Instituto Nacional de Estadística y Censo, Dirección de Estadística y Censo*), and World Bank projections and estimates (September 2020)

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. **Panama's growth is expected to be hit hard by the COVID-19 pandemic.** Economic growth is projected at -8.1 percent in 2020 due to decline in international trade and the containment measures taken to curb the spread of the COVID-19 pandemic, which substantially disrupted economic activity for at least three months. Panama is a service-based economy and highly integrated in world trade. The main direct effects of the COVID-19 pandemic come from the reduction in world trade that affects the volume of traffic in the canal and the halt of air cargo and travel, which have impacted the logistic sector and the tourism industry. Private consumption is estimated to decline considerably due to the increase in unemployment and the uncertain outlook, while public consumption will have a positive contribution to economic growth with increased government spending. Public and private investment are expected to decline due to a construction slowdown. Imports and exports are both estimated to slow as internal demand is reduced and global supply and demand is further reduced. Lower economic activity, especially in high-labor intensive and informal sectors whose work cannot be done remotely, is expected to increase unemployment and poverty rates.

21. **Panama is expected to recover during 2021, predicated on a gradual rebound in trade and domestic consumption, with solid medium-term growth prospects if the health crisis is contained.** The economy is expected

to grow 5.3 percent, assuming that the number of COVID-19 cases are kept in a downward trajectory and at least one COVID-19 vaccine is made available for priority groups in Panama in 2021. Growth will be driven by a gradual recovery of key services such as transport and logistics as well as construction and mining on the supply side and by domestic consumption combined with a gradual rebound in investment and trade, including sectors connected to the canal. Growth is expected to remain at around 4 percent per year over the medium term, supported by institutional reforms that further stimulate private investment, making traditional drivers of economic growth such as construction and trade more dynamic. These forecasts are based on Bank-wide assumptions for advanced economies and world trade, reflecting expected declines in 2020 but with projected growth and trade rebound in 2021 and beyond.

22. **The CAD is expected to narrow in 2020 and gradually expand afterward, financed by recovering FDI after the COVID-19 crisis.** Imports are expected to decline faster than exports due to lower consumption, investments, and lower oil prices, bringing the current account deficit to 1.4 percent of GDP in 2020. The CAD will increase thereafter following a strong rebound of domestic demand. The new copper mine plays a significant role in boosting exports. FDI, which averaged over 7 percent over the last two years is expected to shrink considerably in 2020 and then gradually rebound.

23. **Inflation is projected to remain low, while monetary conditions are closely linked to U.S. policy.** The inflation rate is projected to remain low in 2020 and then accelerate slightly over the medium term at around 1.5 percent as oil prices pick up. As a fully dollarized economy, Panama will likely benefit from loose global monetary policy in the aftermath of the COVID-19 crisis, provided it maintains market confidence. While spreads spiked at the onset of the pandemic, they have gradually come down.

24. **Fiscal revenues will be hit hard as a result of the COVID-19 pandemic, and the fiscal deficit is expected to expand considerably in 2020.** Panama suffers from long-term declining revenues due to fragilities in tax administration and generous tax exemptions. These are expected to fall further in 2020 to just 11.6 percent of GDP. Direct and indirect taxes are expected to be hit similarly, while non-tax revenues (including the fees and the operational surplus paid by the canal) will face a major decline. Expenditures are estimated to increase to cover COVID-19 related needs but decline after 2020. The wage bill should show a more moderate growth since all pay rises agreed in the education sector since 2014 have been implemented. The fiscal deficit is expected to increase from 3.1 percent in 2019 to 7.7 percent in 2020. The government has not yet presented its medium-term fiscal consolidation plans. For this reason and taking into consideration Panama's previous fiscal consolidation, the baseline scenario assumes a very conservative fiscal consolidation path in which primary deficits will be eliminated only in 2023.

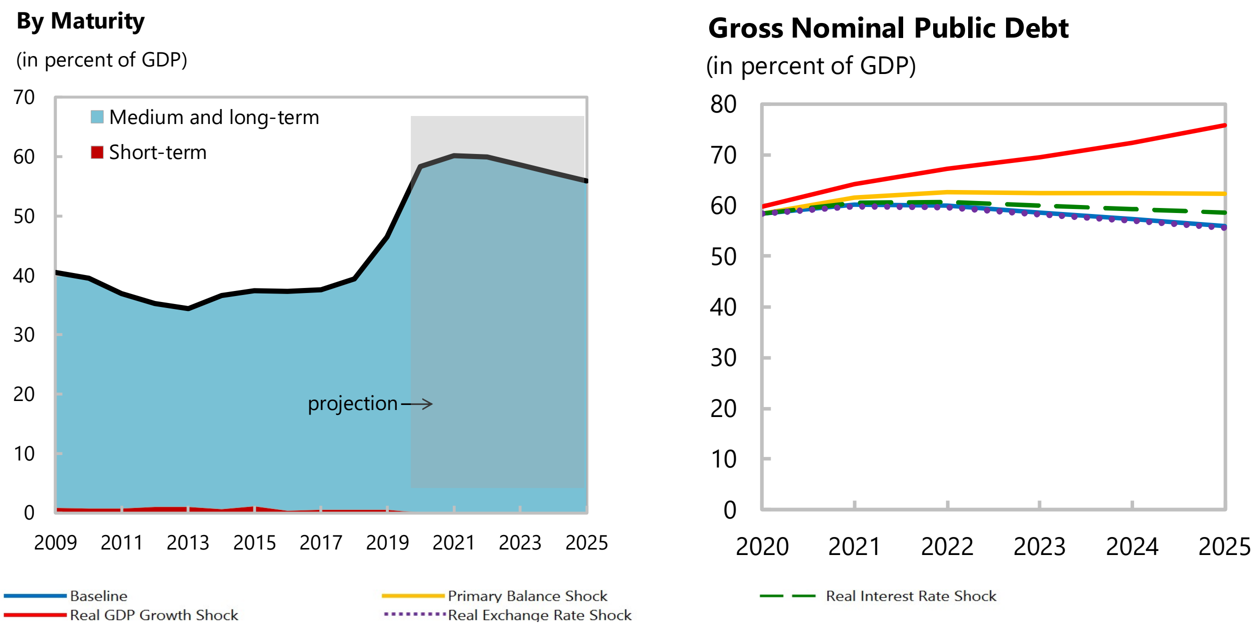
25. **Panama's public debt is expected to increase significantly in 2020 but will remain sustainable.** Under the baseline scenario, the gross public debt-to-GDP ratio is expected to peak at 60 percent in 2021 and decrease gradually thereafter. Panama is expected to continue to maintain its access to global debt markets, benefitting from lower interest rates, as it successfully issued $4.75 billion of bonds in April and September 2020[22], despite the COVID-19 pandemic. The World Bank (WB)'s debt sustainability analysis (DSA) suggest that primary deficits drive the increase in the debt-to-GDP ratio through 2022, but lower deficits and the resurgence in growth dominate debt sustainability over the medium term. The DSA assumes that measures will be put in place to boost fiscal revenues over the medium

[22] Panama issued 12-year bonds with a yield of 1.98 percent and a 36-year bond with a yield of 3.18. Although these yields are historically low, they are still higher than aspirational peer with higher ratings such as Korea, which issue a 10-year bond with a yield of 1.18 percent and Lithuania, which issued a 30-year bonds with a yield of 0.58 percent. It is also higher than structural peer such as Bulgaria, which issued a 10-year bond with a yield of 0.37 percent. Panama's yields, however, are lower than regional peers such as Uruguay, which issued a 20-year bond with yields of 2.78 percent.

term. The DSA indicates that the debt would decline under an interest rate shock and would be stable around 60 percent of GDP under a primary balance shock (Figure 1). However, a shock on GDP growth and a combination of shocks would put the debt on an upward trajectory, arguably undermining its sustainability. The largest debt risk is related to contingent liabilities, such as turnkey projects, State-Owned Enterprises (SOEs), and the pensions system. The use of turnkey or differed payment contracts for large infrastructure projects has been a source of fiscal contingencies since these expenditures were not properly accounted and budgeted for. The government has put a legal limit in the total amount of turnkey contracts and the introduction of PPPs should reduce the need to use PPP contracts. While the main SOEs are professionally run and profitable like the canal and the airport company, Panama has other SOEs such as the metro and bus companies that operate at a loss and are a source of fiscal risk. The World Bank has engagements in the water and transport sector that aims to improve the performance of these sectors, including the SOEs. The pension system is depleting reserves to pay the beneficiaries who started working before 2005 and are entitled to a defined benefit. Reserves might last up to 2024, but estimates are inaccurate due to poor database quality. Debt transparency is satisfactory as the government produces and discloses – with little lag – monthly and quarterly debt reports and long time-series, which contain detailed data on debt as well as contingent liabilities and risks.

26. **Over the medium term, the fiscal deficit is expected to be brought under control due to a rebound in economic activity and efforts to boost revenues through better tax administration**. Gradual fiscal consolidation and a rebound in economic growth should keep public sector borrowing costs and the interest bill manageable. The phase-out of COVID-19 related expenditures and a strong focus on improving tax administration will contribute to the government's fiscal consolidation objectives. On the latter, Panama's tax office (*Dirección General de Impuestos*, DGI) has developed a strategic plan, based on the Tax Administration Diagnostic Tool (TADAT) assessment, and its implementation is being supported by a technical assistance loan already approved by the IDB. The main measures of the plan include: (i) redesign of DGI's structure to match the main tax administration processes including the creation of a large taxpayer unit, (ii) implement a risk-based internal control, (iii) update the code of ethics, (iii) improve transparency portal, (iv) clean and update the taxpayer registry, (v) expand the use of electronic tax invoices; and (vi) upgrade the communication and digitalization strategies. The WB is working with Panama on the design and implementation of indirect taxation on digital services, as part of a joint initiative with the Organization for Economic Cooperation and Development (OECD) and IDB. In addition, the government has requested the IMF to carry out an evaluation of tax policy (including tax expenditures). Currently, in a crisis context with a lot of uncertainty about the pandemic and the economic recovery, the country lacks the political consensus to pursue tax reforms, but it is expected that as the economy recovers, this diagnostic will help to coalesce society-wide support for tax policy reforms.

Figure 1 – Panama public debt sustainability analysis



Source: Panamanian authorities and WB staff estimates and projections.
Notes: Individual shocks represent scenarios which assume: (i) a half standard deviation shocks applied to the growth rate, (ii) a half standard deviation shock applied to the real interest rate, and (iii) that planned fiscal consolidation in 2021 does not occur. The combined shock represents a scenario in which a similar shock is applied to all variables (i.e., interest rate, growth rate, and fiscal primary deficit) at the same time.

Box 1: The Impact of COVID-19 on Panama's Macroeconomic Forecasts

The uncertainty brought by the trajectory of the pandemic, and the discovery and availability of a vaccine can lead Panama to a deeper recession. The COVID-19 crisis still exerts significant uncertainty over the outlook, which justifies the development of a downside scenario. In this scenario, the number of COVID-19 cases would plateau at a high level and a vaccine would only become available to Panamanians in 2022, delaying the rebound of the economy. As a result, pressures for more expenditures and tax benefits would increase and the budget imbalances would be larger and take longer to be addressed. Interest rates on the public debt would be higher due to the worse fiscal situation and fiscal space for public investment would be reduced, all of which contribute to lower long-term growth. In this scenario, GDP would decline by 12 percent and the budget deficit would reach 9.1 and 7.8 percent of GDP in 2020 and 2021 respectively.

In a downside scenario, the impact of the COVID-19 crisis can add up to 30 percentage points of GDP in debt relative to the pre-pandemic forecast and take up to four years for GDP to reach the same level of 2019. The estimated impact of the COVID-19 crisis can be gauged by comparing the projected trajectory for GDP and public debt before the COVID-19 pandemic, using the forecasts of the Macro Poverty Outlook (MPO) from the 2019 annual meetings, and the two scenarios forecasted in this document (see figures below). Public debt would reach 68.4 percentage of GDP in 2022 in the downside scenario as opposed to 38.9 percent forecasted at the 2019 annual meetings. Although GDP growth rates might be temporarily higher in the aftermath of the crisis, it would take three to four years for Panama to regain the 2019 GDP level after the pandemic. In addition, under the downside scenario, GDP level in 2023 would be almost 20 percent lower than the pre-COVID-19 forecast.

Figure 2: Panama GDP level under different scenarios (index, 2019 = 100)

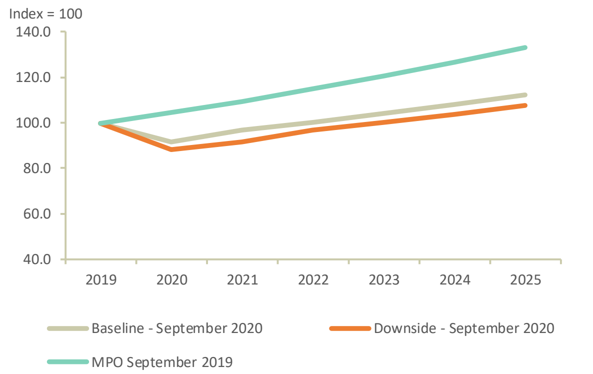
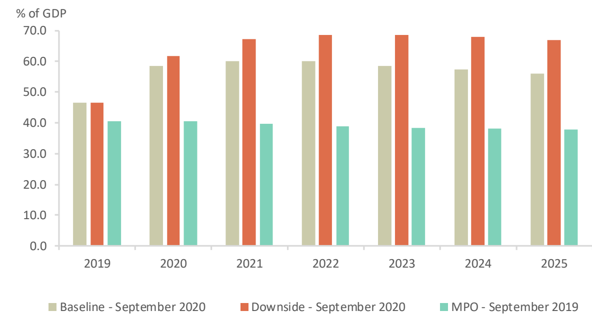


Figure 3: Panama public debt under different scenarios (share of GDP)



Source: World Bank projections and estimates (September 2020)

27. **Panama's macroeconomic policy framework is sustainable and adequate for the proposed operation.** Since Panama is a fully dollarized economy, with no central bank, macroeconomic policy responses rely largely on fiscal policy, which has generally been prudent (as reflected in Panama's comparatively lower sovereign risk spreads). Fiscal policy is regulated by the SFRL, which establishes limits on net public debt and fiscal deficits and on some types of public expenditure, providing a relatively credible underpinning for fiscal and debt sustainability. In addition, due to the COVID-19 pandemic, the GoP is setting up a liquidity fund for the financial sector with IMF and MIGA support. Macroeconomic indicators will deteriorate in the short term due to the impacts of the COVID-19 pandemic. However, growth is projected to rebound over the medium term, combined with low inflation, and the fiscal and external balances are expected to remain sustainable. Nonetheless, the baseline scenario is vulnerable to risks. The main macroeconomic risks are: (i) longer and more severe impacts from the COVID-19 pandemic caused by delay and scarcity of vaccines, and (ii) greater pressure for government expenditures include tax benefits and lack of support for any tax policy measure. If these risks materialize, Panama will enter a downside scenario with an estimated cost of 2 percent of GDP by the end of 2022.

2.3. IMF RELATIONS

28. **The government has benefited from US$515 million in IMF financial support through the Rapid Financing Instrument (RFI).** On March 24, 2020, the IMF's Executive Board concluded the last Article IV Consultation, which is based on information available before the COVID-19 became a global pandemic. In view of the severity of the COVID-19 shock and the disruption it has created in the Panamanian economy, deteriorating the balance of payments and public finances, the IMF's Executive Board approved the country's request for financial support under the RFI for 100 percent of its quota or about US$515 million. The IMF agreed with the higher deficit in 2020 but support the return of a gradual fiscal consolidation once the pandemic recedes.

3. GOVERNMENT PROGRAM

29. **The government's economic policy strategy is embodied in the Government's Strategic Plan (*Plan Estratégico***

***del Gobierno)* and *Plan Colmena*.** The *Plan Estratégico del Gobierno* 2019-2024 (PEG)[23] highlights that there are five types of Panamas: (1) the modern one; (2) the medium-class one; (3) the suburban one; (4) the rural and agricultural one; and (5) the Indigenous one (*comarcas*). The top priorities of the GoP presented in the PEG are focused on reducing poverty and closing the gaps between the five types of Panamas. To achieve these objectives, the GoP proposed five strategic pillars: (i) governance; (ii) rule of law; (iii) competitiveness and job creation to reactivate economic growth; (iv) poverty and inequality reduction; and (v) education, science, technology and culture. The GoP has also published the *Plan Colmena*, which is a territorial strategy articulated with PEG that seeks to empower local communities by strengthening local capacity and community participation in the delivery of public services. *Plan Colmena* targets Governorates (*Gobernaciones)* and Provincial Technical Boards (*Juntas Técnicas Provinciales)* from the 300 poorest municipalities (*corregimientos)* distributed across 63 districts in the country.[24]

30. **However, the COVID-19 pandemic has led the government to reprioritize its focus areas to respond to the health emergency and mitigate its economic impact.** On March 13, 2020, through Cabinet Decree 11, the government declared a "National State of Emergency," putting in place a series of measures to prevent the spread of the disease. A package of social and economic measures was quickly adopted (see Box 2), with broad political support, to provide relief to families, workers and firms affected by the pandemic.

Box 2: Panama's Economic and Social Response to the COVID-19 Crisis

Following the onset of the COVID-19 outbreak in Panama, the government has deployed a coordinated strategy to mitigate its economic and social impacts. The first measures were announced just after confirming the first COVID-19 cases, when the GoP issued a declaration of a National State of Emergency. Since then, several waves of measures have been announced, including the following:

Social

Protection of the vulnerable

- Creation of *Plan Panamá Solidario,* a temporary economic support program, which includes three types of support for vulnerable households – food baskets (for the rural and most isolated areas of the country), physical vouchers (for suburban areas with relatively good access to markets), and digital vouchers (for urban areas with good access to markets)
- Subsidy for workers in the formal sector who stopped receiving a salary after the declaration of the pandemic, legally categorized as suspended workers (provided through *Plan Panamá Solidario*)
- Subsidy for poor foreign workers residing in the country (provided through *Plan Panamá Solidario*)
- Coordination of national and local governments in the implementation of social policies
- Prevention of domestic abuse through public campaigns and implementation of call center to denounce gender-based violence

Health prevention and treatment support to the population

- Approval of a strict social distancing protocol
- Closure of all private and public schools across all education levels
- Measures to increase availability of medical personnel to be redeployed for pandemic emergency services
- Implementation of triaging patients with respiratory symptoms
- Agile mechanisms for obtaining sanitary registries

Mitigation of learning losses

[23] Law 34 from 2008 in its Article 16 establishes that within the first six months after taking office each new administration must submit to Congress its new *Plan Estratégico de Gobierno* aligned to the national objectives outlined in the "*Concertación Nacional para el Desarrollo.*"
[24] The 300 poorest municipalities were identified using a multidimensional metric of poverty that combined both income and qualitative poverty measures.

- Development of temporary emergency distance learning programs accessible using printed booklets, radio, television, and digital platforms.
- Adapted existing school meals program *(Programa Estudiar Sin Hambre)* to ensure continuity in the provision of the service to pre-primary and primary students during school closures.

Fiscal

Internal Revenue Services

- Import taxes waiver for specific medical supplies and basic needs items
- Deferral of income taxes for companies, conditional on their retaining their labor force

Emergency response financing

- Reallocation of budget resources to the health sector

Curbing inflation and speculation

- Limit the number of basic needs items that each household can purchase to avoid speculation and curb inflation
- Regulate price increases of basic needs items

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

31. **The proposed operation aligns with the government´s objectives by supporting four of the five strategic pillars included in the PEG 2019-2024 and its response to the COVID-19 crisis.** On governance, the operation will support the GoP's priority policy actions for strengthening public finances and fiscal responsibility and improving transparency and accountability. On competitiveness and job creation, the operation will support the GoP's priority policy actions for improving agricultural and food security, and climate change. On poverty and inequality reduction, the operation will support the GoP's priority policy actions for increasing access to medicine by expanding the use of generic medicines, strengthening the social protection system, and strengthening the institutional framework and programs for inclusion of Indigenous Peoples. On Education, Science, Technology, and Culture, the operation will support some of the GoP's priority policy actions on education. The operation is also supporting policies implemented to mitigate the social and economic impact of the COVID-19 pandemic such as mitigation of learning losses through distance learning.

32. **The objective of the proposed DPF is to protect human capital during the COVID-19 crisis, while strengthening institutions to foster human capital accumulation and support a more inclusive and sustainable economic recovery**. The reforms supported by this operation will help protect the human capital levels of the most vulnerable groups of society from large and lasting repercussions from the pandemic and help steer the economy to rebuild better through critical policy and institutional reforms. This is expected to be achieved by supporting a combination of emergency measures such as the creation of a temporary food voucher program and food distribution to compensate for lost income among poor and vulnerable households; and structural reforms during the recovery phase including: (i) curricula prioritization and permanent inclusion of technologies in the education sector, (ii) policies for the inclusion of family farmers and Indigenous Peoples, (iii) measures to combat tax evasion and money-laundering, and (iv) strengthening the institutional framework for PPPs, and public procurement. Therefore, this operation will support the country emergency and development plans while directly contributing to the objectives the Bank has set for new IBRD lending in countries above the GDI such as institutions and global public goods.

33. **The proposed DPF is the first in a programmatic series of two loans organized around three pillars:**

(i) *Pillar A – Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery.* This pillar supports some of the short-term measures adopted by the GoP to protect the human capital during the COVID-19 pandemic, as well as medium-term institutional reforms aimed at strengthening the quality and equity of service delivery in health and education.

(ii) *Pillar B – Strengthening institutions to support a more transparent and fiscally sustainable economic recovery.* This pillar supports key policy and institutional reforms for rebuilding a more transparent and fiscally sustainable economy. This includes reforms for fiscal consolidation and increased transparency and efficiency of public procurement, and the regulation of Public Private Partnerships (PPP).

(iii) *Pillar C – Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery.* This pillar supports key policy and institutional reforms for rebuilding a more inclusive and environmentally sustainable economy. This includes reforms related to electricity subsidies, promotion of clean fuels, the regulatory framework for the national inventory of greenhouse gas, and low-carbon economic and social development

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A - Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery

34. **Pillar A seeks to support some of the short-term measures adopted by the GoP to protect human capital during the COVID-19 pandemic, as well as medium-term institutional reforms aimed at strengthening the quality and equity of service delivery in health and education.** This pillar supports three policy actions in the health, education, and social protection sectors that address the emergency response of the government to preserve human capital and that promote the medium-term structural reform agenda on service delivery.

35. **The expected impacts from COVID-19 on human capital losses are expected to be severe and exacerbate the high levels of inequality in the provision of essential services.** The disruption in the provision of essential services such as health and education will lead to losses of lives and poses a huge set back to hard-won gains in human capital over the past decades. In addition, the measures adopted to contain contagion will affect livelihoods and food security, posing a risk to nutrition and reducing the ability of households to invest financial resources to increase their human capital levels. Lastly, supply disruptions could increase the price of perishable and nutritious foods, among others, posing a risk to child nutrition and human capital development. In Panama, the rapid increase in the number of cases reported has put additional pressure on the health system, which already faced a lot of challenges prior to the pandemic in terms of access, quality, and fragmentation. The pandemic has also left almost one million students out of school, resulting in learning losses of up to 1.0 learning-adjusted years of schooling (LAYS) and an average reduction in lifetime earnings of up to 8.4 percent for students affected. Moreover, poor and vulnerable groups bear a disproportionate cost of the pandemic due to the closedown of businesses, requirements for social distancing, and curfews as they are more likely to work on jobs that cannot be done remotely and/or work in the informal sector, with none or little coverage from the regular social protection instruments. [25]

[25] Forty-five percent of the non-agricultural workers are in the informal sector, lacking access to social security and with insufficient savings to weather the crisis.

DPF1 Prior Action #1: The Borrower has enacted legislation and taken measures to facilitate the reduction of out-of-pocket expenses for the users of the public health system by improving access to high-quality generic medicines.

DPF2 Trigger #1: The Borrower has adopted mandatory guidelines to be followed by public health facilities for the distribution, prioritization, and financing of the COVID-19 vaccines to safeguard the health of high-risk groups.

Results Indicator #1: Health regions (*regiones de salud*) with verified institutional capacity in MINSAs' facilities to provide access to prescribed medicines for all users; and to distribute and prioritize COVID-19 vaccines to safeguard the health of the high-risk groups conditional on the COVID-19 vaccine being available in the international market (number).[26]

36. **Rationale. The disruption of the medicines supply chains and social distancing restrictions are disproportionately affecting rural and remote regions, risking the delivery of medicines to treat COVID-19 patients and other health conditions and emergencies.** A structural issue affecting the equity and efficiency of public health spending in Panama has been the high cost of medicines, and its frequent shortages among all types of public health facilities. In 2017, 33 percent of the total health expenditures in the country were paid out-of-pocket, compared to 28 percent in countries in Latin America.[27] One of the main contributors to the high out-of-pocket expenditures is the cost of medicines. The provision of medicines in public health facilities is managed by a fragmented public health system administered by the Social Security Fund (*Caja de Seguro Social,* CSS) and the Ministry of Health (MINSA). CSS is a health insurance institution and covers around 77 percent of the population, mainly workers from urban areas working in the formal sector and their dependents.[28] The remaining 23 percent of the population does not have health insurance and rely on a universal public health service provided MINSA. Therefore, MINSA is mainly covering informal workers, Indigenous Peoples, and people in rural areas. Both CSS and MINSA offer basic coverage of medicines, but this often does not translate into effective access by patients due to the frequent shortage of medicines in public pharmacies (MINSA and CSS), existing copayments that implicitly require out-of-pocket expenses, and the prescription of non-covered medicines. Around 61 percent of users of the public health system report that the cost of medicines was too high, and 20 percent report having to borrow money to purchase prescription medicines not covered by the public health insurance. Moreover, 16 percent of users report that medicines are "never" or "almost never" available at public pharmacies, and this is even more frequent in Indigenous *comarcas* where up to 28 percent of users report regular stockouts of medicines in public pharmacies.[29]

37. **Substance of the Prior Action. The GoP has approved legislation to regulate the access and quality of medicines in public pharmacies, serving both CSS and MINSA, in order to improve the cost-effectiveness of public health spending.** In 2019, the Congress approved two laws, and their regulations, to manage the supply of medicines in all

[26] The measurement instrument for access to prescribed medicines by in MINSA's facilities is the User Satisfaction Survey. This is a nationally representative survey conducted annually by the MINSA's Monitoring and Evaluation Department, Health Services Provision Division. The sampling design for this survey allows to estimate reliable statistics by health region. The question that will be used to measure user's perceptions on prescribed medicines availability is the following: "Did you receive all the medicines that were prescribed for you?". The measurement instrument for the institutional capacity to distribute and prioritize COVID-19 vaccines will be administrative data by health region. Conditional on the COVID-19 vaccine being available in the international market is defined as having one or more vaccines for COVID-19 approved and in distribution by the COVAX mechanism.

[27] The World Bank. Databank Health Nutrition and Population Statistics.

[28] The increased unemployment rate – estimated at 20 percent by Ministry of Labor (*Ministerio de Trabajo y Desarrollo Laboral*, MITRADEL – is expected to result in the loss of CSS coverage for many workers, who will face increased limitations to access health services and medications to treat COVID-19 related symptoms and manage pre-existing conditions (*Programa de las Naciones Unidas para el Desarrollo,* PNUD 2020. *Impacto Del Covid-19 En Panamá Análisis Socioeconómico*).

[29] *Instituto Conmemorativo Gorgas De Estudios De La Salud*. 2014. *Gasto, Acceso y Disponibilidad de los Medicamentos en Panamá*, 2007-2012. Documento Diagnóstico.

public pharmacies in the country. This new legal framework for the National Pharmaceutic Policy, is based on the following key elements: (i) simplification in the procedure to register new or imported medicines in case of critical shortages; (ii) standardization, expansion, and promotion of the use of generic medicines, prioritizing effective active principles[30] rather than commercial brands; and (iii) strengthening the quality control of generic medicines by ensuring their interchangeability in public pharmacies.[31] The prior action reflects the strong commitment of the government to strengthen the legal framework that regulates the access and quality of medicines**.** In the medium-term, the implementation of the new National Pharmaceutical Policy Law is expected to increase the use of generic medicines, promote competition, create incentives for the local production of generic medicines, reduce the risk of stockouts in pharmacies, and lower the out-of-pocket expenses for the uninsured **(DPF1 Prior Action #1)**. During the pandemic, the implementation of the new National Pharmaceutical Law has been key to manage the COVID-19 response in the country in several ways. First, it has ensured increased access to cheaper generic medicines used to treat COVID-19 patients as all medicines approved to manage COVID-19 symptoms are generic. Second, it has contributed to the reduction in the cost of treating patients of COVID-19 by reducing the cost of medicines available through public pharmacies, as well as the out-of-pocket expenditures for the uninsured who tend to be the poor and vulnerable. Third, it has contributed to the improvement of the health outcomes of infected people by ensuring the quality (i.e. interchangeability) of the generic medicines. Lastly, it has contributed to the improvement of the management of patients with pre-existing conditions associated with COVID-19 complications (e.g. type-2 diabetes, coronary artery disease, hypertension, etc.) and to lower their overall risk profiles during the pandemic, by reducing shortages of medicines to treat those conditions, which are typically generic.

38. **DPF2 Trigger #1. The indicative trigger will support the issuance of mandatory guidelines to be adopted by public health facilities for the distribution, prioritization, and financing of the COVID-19 vaccines to safeguard the health of higher-risk groups.** This new regulation will set the core principles for the deployment and delivery of the COVID-19 vaccine, or the country's immunization strategy, outlining how the vaccination program will be deployed across the country. Ongoing Phase 3 trials being conducted worldwide, will provide information on the vaccine efficacy. Based on these results and the future availability of vaccines, the new regulatory framework defined by the strategy will focus on either increasing the herd immunity of the entire population to control transmission and potentially eradicate the disease, or reducing the impact of the disease (i.e. reduce mortality and severe morbidity) by implementing the vaccine program in selected subgroups of the population who are at higher risk of severe forms of COVID-19 (e.g. health workers, the elderly, and population with comorbidities). Panama has preliminary prioritized 600,000 individuals (13 percent of the population) who are considered high-risk individuals, as well as essential workers in health and defense sectors. Institutional readiness to administer the COVID-19 vaccine should be determined across four areas: (i) planning and management (e.g. tracking the vaccine stocks); (ii) supply and distribution (e.g. end-to-end supply chain and logistics for storing, handling, and stocking the vaccine); (iii) delivery (e.g. identifying high-risk individuals, communication campaigns); and (iv) support systems and infrastructure (i.e. cold chains that are currently not available, develop pharmacological system to track vaccinated individuals, etc.). The vaccination strategy should also define financial mechanisms to ensure middle and long-term sustainability and plans to scale up deployment at national level. The strategy will also define the financial mechanisms for implementing the vaccine program. Overall, the strategy will prioritize safety, effectiveness, and access for all to the

[30] MINSA 2019. "*Encuesta De Satisfacción Del Usuario De Las Instalaciones Por Región De Salud,*" Dirección de Provisión de Servicios.

[31] The term "active principle" refers to the intrinsic chemical substance which induces pharmacological activity in a medicine. The interchangeability process certifies that the expected results of a generic medicine will be equivalent to that produced by the original commercial-branded medicine. A generic medicine can be produced after the expiration of a patent or other exclusivity right of a commercial brand. In Panama, the conditions of interchangeability are regulated by MINSA, which publishes periodically a list of generics that are interchangeable (Resolution 177 of 2019).

vaccine, regardless of their socioeconomic status **(DPF2 Trigger #1)**.

39. **Expected Results Indicator. The expected impact of the new regulatory framework supporting the vaccine strategy is to improve the immunization against COVID-19, mitigating the potential implementation challenges.** The existing vaccination scheme in Panama is one of the most complete in the region.[32] However, this system is mainly targeted to children, not adults or prioritized groups of the population. Stock availability of future COVID-19 vaccines might become challenging, as initial production deals are concentrated in a few developed countries. Multilateral efforts, involving the Global Alliance for Vaccines and Immunization and the new COVAX mechanism[33], the World Health Organization, the United Nations, the World Bank Group, as well as other organizations, are currently ongoing to improve the availability of the vaccine in all countries, irrespective of their economic capacity. In parallel to these global efforts, each country is developing its own COVID-19 vaccination strategy to be implemented once a vaccine has been cleared for rollout at a global scale. The indicative trigger is expected to improve country readiness to vaccinate a large number of people safely, effectively, quickly, and in an affordable way, prioritizing population by risk profile. The impact will be measured by the institutional capacity in MINSAs' facilities to provide access to prescribed medicines for all users; and to distribute and prioritize COVID-19 vaccines to safeguard the health of the high-risk groups conditional on the COVID-19 vaccine being available in the international market.

DPF1 Prior Action #2: The Borrower, through the Ministry of Education, has taken measures to mitigate learning losses including: (a) the issuance of a resolution approving a criterium for curricula prioritization for all subjects offered in pre-primary, primary, lower secondary, and secondary education for the school year 2020; and (b) the issuance of a resolution approving the temporary implementation of distance learning programs and setting forth the main requirements for said type of education.

DPF2 Trigger #2: The Borrower has approved the legal framework to integrate information and communication technologies to the education system to accelerate learning, particularly among the poor and most vulnerable.

Results Indicator #2: Students in public schools in *Plan Colmena* using at least one of the education technologies solutions provided by the government to support learning during school year 2022 (unique users, at least one access per month) (number).[34]

40. **Rationale. The pandemic has left almost one million students out of school in Panama, resulting in large learning losses and a notable reduction in the expected lifetime earnings of students affected.** Before the pandemic, Panama's learning outcomes were considerably behind those observed in countries with similar levels of income. Nationally, more than three in five students in the country do not reach basic reading proficiency by age 15. This puts a 15-year-old student in Panama four years of schooling behind a student in an OECD country. Also, there were large discrepancies in learning outcomes between rich and poor, and urban and rural students. Poor students' outcomes were almost four years of schooling behind those of rich students. Mirroring the geographical inequalities in Panama, students in rural areas also reached learning outcomes that are more than two years of

[32] Pan American Health Organization (PAHO) 2017, *Salud en las Americas*.

[33] COVAX is one of three pillars of the Access to COVID-19 Tools Accelerator, which was launched in April by the World Health Organization, the European Commission and France in response to this pandemic. The COVAX pillar is focused on vaccines.

[34] The education technologies might include, for instance, educational software, platforms, ebooks, etc. The value of education technologies is generally measured using a combination of dimensions such as "frequency of use" (adoption), "quality of the activities implemented" (some activities are more relevant than others to promote learning), "participation" (when a user actively participates in debates or other activities), "duration" (number of minutes spent using the platform), etc. However, these indicators are hard to link to the actual pedagogical usefulness of education technologies to effectively support learning.

schooling behind those from urban areas.[35] These numbers suggest that Panama's education system is one of the most unequal in the Latin America region. The pandemic has further impacted an education system already facing difficulties and it is expected to widen the existing learning gaps. The temporary closure of schools in Panama has affected 998,447 students – 95,481 (pre-primary), 418,852 (primary), 322,913 (secondary), and 161,201 (tertiary). The loss in learning as a result of the pandemic is expected to be up to 1.0 learning-adjusted year of schooling (LAYS). Before the pandemic, the average learning-adjusted years of schooling in Panama was 7.1.[36] After the pandemic, it is expected that the learning-adjusted years of schooling (LAYS) will be between 6.1 and 6.7, depending on how long schools remain closed. And poor and vulnerable students are expected to be most affected. These learning losses are expected to translate into a reduction of up to 8.4 percent in the average lifetime earnings of students affected by the closure of schools. Before the pandemic, a student who completed the average learning-adjusted years of schooling in Panama could expect to earn US$18,211 per year. As a result of the pandemic, this number is expected to reduce to between US$16,689 and US$17,435, depending on how long schools remain closed.

41. **Substance of the Prior Action. To mitigate students' learning losses during the pandemic, the Ministry of Education (MEDUCA) has issued the legal framework to implement temporary distance learning programs during the 2020 school year, with a focus on reaching poor and vulnerable students.** Following international best practices, MEDUCA has issued a resolution approving the criteria for curricula prioritization for all subjects offered in pre-primary, primary, lower secondary, and secondary education for the 2020 school year. This prioritization is important as it provides clear guidelines on the minimum learning expected of students in public and private education during school closures, to ensure learning losses don't exacerbate inequalities further. The implementation of these curricula prioritization criteria has resulted in the development of emergency curricula for each subject offered in pre-primary, primary, lower secondary, and secondary education for the 2020 school year. The development of these criteria for curricula prioritization will allow significant strengthening of the delivery of education services in the medium-term for poor and vulnerable students in remote areas of the country prone to natural disasters, which are recurrently affected by school closures during the school year. Moreover, MEDUCA issued a resolution approving the temporary implementation of distance learning programs anchored around the emergency curricula and setting forth the main requirements for this type of education **(DPF1 Prior Action #2)**. The emergency curricula were used to guide the development of materials to implement several emergency distance learning programs. These materials were delivered using a combination of methods, including printed booklets, radio, television, and digital platforms. The use of different methods to deliver the existing emergency distance learning materials was crucial to maximize the probability of all students accessing the materials – irrespective of their socioeconomic background or geographical location. For instance, only 7 percent of students from poor families have access to the internet, compared to 95 percent of students that are better-off, and 67 percent of students from poor families have access to a television compared to 99 percent of students that are better-off. Ethnicity also plays an important role in explaining the access to technologies gap, with only 5 percent of Indigenous Peoples having access to a computer and 52 percent to an internet connection compared to 32 percent and 72 percent for their non-indigenous counterparts, respectively.[37] To distribute the materials developed for television, the GoP signed cooperation agreements with seven local television channels with national coverage and as of June 30, 2020 had broadcasted approximately 2,688 hours of over-the-air television content during the 2020 school year.

[35] Program For International Student Assessment (PISA) results from PISA 2018.
[36] Learning-Adjusted Years of School are calculated by multiplying the estimates of Expected Years of School by the ratio of most recent Harmonized Test Score to 625, where 625 corresponds to advancement attainment on the TIMSS (Trends in International Mathematics and Science Study) test. The Expected Years of School are measured by the average number of years of schooling that have been completed by the average member of the population.
[37] PISA 2018 contextual questionnaire.

42. **DPF2 Trigger #2. During the recovery stage, MEDUCA will develop the legal framework for the permanent introduction of information and communication technologies in the education sector.** The creation of emergency distance learning programs during the pandemic was crucial to mitigate learning losses. To ensure that distance learning programs, and the technologies associated with them, can work effectively to promote learning and deliver blended learning models in the longer-term. It is critical to flesh out how these should be incorporated in the various parts of the education system. This involves regulating some key issues, inter alia: (i) how to provide flexibility in learning hours; (ii) how and what technologies to use to accelerate learning and reduce learning gaps; (iii) how to design digital pedagogical materials to deliver blended learning models; (iv) how to measure students' learning for blended learning programs; and (v) how to use technologies to scale-up training for teachers and strengthen the digital literacy of existing and future teachers. The trigger reflects MEDUCA's interest in strengthening the delivery of education services in the medium-term by developing the legal framework to regulate these and other aspects related to the use of education technologies **(DPF2 Trigger #2)**.

43. **Expected Results Indicator. The main expected impact of the legislation to introduce information and communication technologies in the education sector is to accelerate learning and deliver blended learning models, which will mainly benefit young adults who have dropped out or are at risk of dropping out of the education system.** It is expected that, in combination with the improvement of school connectivity in the medium term, the legislation will allow the design and implementation of effective distance learning strategies in the country to facilitate access of poor and vulnerable students to up-to-date technologies. The international evidence on the use of education technologies to improve the quality of education suggests that simply providing students with access to technologies has limited impact on learning outcomes. Some of the most promising education technologies applications suggest that a pre-condition for them to accelerate learning and reduce inequalities is that they are delivered as part of a well-designed system that has the ability to use them effectively for instruction in combination with traditional tools.[38] Moreover, international literature presents strong evidence that education technologies that are well articulated withing the education system have the potential to significantly reduce the gaps in both access and quality.[39] The impact of this program will be measured using the number of students in public schools in *Plan Colmena* who use one of the education technologies solutions provided by the government to support learning during school year 2022 (unique users, at least one access per month).

DPF1 Prior Action #3: The Borrower has adopted emergency measures to protect workers and poor and vulnerable persons during the pandemic by: (a) creating emergency digital food vouchers (*Vale Digital*) targeted mainly at urban poor and vulnerable persons and suspended low-salary formal workers; and (b) creating mechanisms for the delivery of food baskets to poor and vulnerable persons in rural and Indigenous territories, where the distribution of digital food vouchers was not feasible to implement.

DPF2 Trigger #3: The Borrower has adopted measures to transition from *Panama Solidario* to a temporary social protection program targeted at persons who are still in poverty or vulnerability.

Results Indicator #3: Proportion of population aged 18 or older covered by a temporary social protection program (percentage).

44. **Rationale. The closure of businesses and social distancing protocols adopted in Panama as a result of COVID-19 have significantly affected the incomes of the poor and vulnerable, and the national social registry was not well**

[38] Escueta, Maya, Vincent Quan, Andre Joshua Nickow, Philip Oreopoulos (2017), "Education Technology: An Evidence-Based Review," National Bureau of Economic Research Working Paper 23744.

[39] Muralidharan, Karthik, Abhijeet Singh, and Alejandro J. Ganimian. 2019. "Disrupting Education? Experimental Evidence on Technology-Aided Instruction in India." *American Economic Review*, 109 (4): 1426-60.

positioned to inform the targeting of the government's support to address this shock. The poor are more likely to work in jobs that cannot be done remotely and/or to be self-employed in the informal sector. As a result, their incomes have been disproportionally affected by the measures adopted by the government to contain the pandemic.[40] The pandemic containment measures have also significantly affected the vulnerable working in low-salary jobs in the formal sector who have suddenly seen their jobs suspended without pay. Before the pandemic, poverty levels in Panama were relatively low compared to the rest of the countries in Latin America. Therefore, the coverage of the traditional standard social programs is relatively low, and the national social registry, called the National Registry of Beneficiaries (*Registro Nacional de Beneficiarios, RENAB)*, only includes beneficiaries of the existing traditional programs.[41]

45. **Substance of Prior Action. To reach the poor and vulnerable affected by the COVID-19 pandemic, the GoP created a temporary economic support program called Panama Solidarity Plan (*Plan Panama Solidario*, PPS).** The government's response to the pandemic required quickly reaching a broad set of newly poor and vulnerable people who were not part of the national social registry. PPS is a temporary economic support program that provides two types of support: (i) digital food vouchers (*Vale Digital*), targeted at the poor and vulnerable in urban and peri-urban areas and suspended low-salary formal workers; and (ii) food baskets, targeted at the poor and vulnerable living in Indigenous territories and rural areas where the distribution of digital food voucher turned not feasible.[42] **(DPF1 Prior Action #3)**. In countries like Panama, where safety nets tend to be "static" (i.e. categorically targeted or means tested based on ad-hoc population outreach), the creation of new programs that are clearly labelled as temporary is critical to provide broad and immediate assistance without creating the expectation of prolonged support among the population that in normal circumstances are less in need.

46. **The GoP developed an innovative system to identify and pay beneficiaries of digital food vouchers in urban and peri-urban areas.** The target population for the digital food voucher originally included individuals 18 years old and older in urban and peri-urban areas who were not active formal workers, civil servants, pensioners, or had declared income for tax purposes below US$11,000 per year in 2019. In April 2020, the criterion for eligibility was expanded to include also low-salary formal workers with suspended contracts due to the pandemic. Given that the social registry could not be used to identify beneficiaries for the digital food voucher, the National Authority for the Government Innovation *(Autoridad Nacional para la Innovación Gubernamental,* AIG)[43] developed a list of beneficiaries by crossing administrative databases managed by various government agencies, including the electoral registry, tax records, suspended workers list, civil servants payroll, pensioners payroll, among others. Once the list of beneficiaries for digital food vouchers was created, the beneficiaries' national identification card was activated to be use as debit cards to purchase food and main necessity items at authorized grocery and retailing stores.[44] In rural

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[40] The poor and vulnerable are also at higher risk of infection due to their limited access to proper water and sanitation facilities, which do not allow them to follow proper hygiene practices to prevent contagion.

[41] The traditional social assistance programs in Panama cover conditional cash transfers (CCTs), social pensions, and disability benefits. There are four main social assistance programs, which have been in place for more than a decade: (i) *Red de Oportunidades* (RdO), which is targeted at extreme poor families with children up to 17 years old; (ii) *120 a los 65* (*120/65*), which is a non-contributory pension program for the elderly poor above 65 years old; (iii) *Angel Guardián* (AG), which is targeted at extreme poor with severe disabilities; and (iv) *Beca Universal (BU*), which is targeted at students in public and low-tuition private schools.

[42] Solidarity bonds (also known as physical food vouchers) were originally distributed in urban areas but these were replaced by the digital food vouchers when a new national identification card payment system was developed.

[43] AIG is responsible for applying the eligibility criteria of digital food vouchers through database cross checks.

[44] In urban areas, traditional social assistance programs are paid through bank accounts. The decision to create the PPS payment system linked to the national identification card system during the pandemic responded to the need to reduce the transaction costs of opening bank accounts for new beneficiaries. In Indigenous territories and rural areas, traditional social assistance programs are paid in cash. The

areas and Indigenous territories where digital transactions are limited and COVID-19 mobility restrictions restricted the access to markets, the GoP relied on local authorities to identify the poor and vulnerable households highly affected by reduced income due the pandemic.[45] Food baskets have been delivered monthly to beneficiaries using a mechanism that combine local and national food purchase and strategic warehouses. The value of the digital food voucher and food basket is equivalent to US$ 100 per month, and these have been paid to eligible individuals since March 2020.[46] In the first two months of implementation, PPS reached 1.1 million individuals or 36 percent of population aged 18 years old or older. In August and September 2020, as a consequence of the reduction in the number of suspended workers and the increase of informal workers that are able to recover their activities, PPS was reduced to 660,000 individuals or 22 percent of the population aged 18 years old or older**.** PPS is expected to continue until the state of emergency is lifted.

47. **DPF2 Trigger #3. An inclusive economic recovery in Panama will require the protection of the standards of living of the poor and vulnerable for a longer period after the state of emergency is lifted.** The expected gradual economic recovery once the pandemic has been controlled will require for the government to continue supporting the poor and vulnerable after the state of emergency is lifted. This will be critical in order to prevent further human capital losses than the ones already imposed by the pandemic. To achieve this, the GoP will need to develop a strategy to transition out of PPS to another temporary social assistance program after the state of emergency is lifted. This new temporary assistance program should be targeting individuals in urban, peri-urban, rural and Indigenous territories who are still in a poverty or vulnerable condition, as a result of the COVID-19 crisis, after the state of emergency has been lifted. The indicative trigger supported in this operation reflects the GoP's interest in developing this strategy with the ultimate objective of strengthening the existing social protection system in the country to better cope with future systematic income shocks and natural disasters **(DPF2 Trigger #3)**.

48. **Expected Results Indicator. The expected impact of the prior action and trigger is to reduce the effect of the COVID-19 crisis on the poor and vulnerable by providing them temporary social protection.** This expected impact will be measured by the percentage of the poor and vulnerable population aged 18 or older who are benefitting from the government's temporary social assistance.

Pillar B –Strengthening institutions to support a more transparent and fiscally sustainable economic recovery

49. **Adverse impacts of the pandemic led to a fiscal deterioration that highlights institutional constraints in Panama.** The sharp economic slowdown and large spending pressures generated by the COVID-19 crisis are expected to increase the fiscal deficit as a share of GDP and public debt. Dwindling government revenues, due to the compound effect of the sharp economic slowdown and weakness in tax collection, are expected to lead to a significant reduction in public investments to enable the rebalancing of the fiscal accounts. The adjustment will also require reducing current spending through efficiency gains. In this context, improving procurement practices and revenues mobilization are critical to achieve sustainable savings. In a context of public sector consolidation, attracting private financing to meet Panama's important infrastructure needs is paramount, especially in poor areas outside of the capital. Strengthening the regulatory and institutional frameworks for PPPs is a key condition for this to happen. At the same time, improving transparency of investment by advancing critical anti-money laundry measures will favor

decision to distribute food baskets in these areas during the pandemic responded to the mobility restrictions, reduced food supplies, and lack connectivity in local stores to implement the digital food voucher.

[45] Local authorities included provincial coordinators of several national government agencies, elected mayors, and local Indigenous authorities in the Indigenous territories (C*omarcas).*

[46] The benefit of both the digital food voucher and food basket was increased from the equivalent of US$80 to US$100 per month since the second month of implementation.

responsible investment flows. This pillar supports three prior actions related to the transparency and efficiency of the mobilization and use of public resources.

DPF1 Prior Action #4. The Borrower has taken actions to enhance the transparency of business operations in Borrower's territory while at the same time strengthening its capacity to fight tax evasion and illicit flows, by: (a) enacting a law establishing the regulatory framework for the creation of the system of registry of ultimate beneficial ownership (UBO) of legal persons to facilitate the improvement of the information basis for combating tax evasion and AML/CFT; (b) issuing a manual for risk-based supervision of designated non-financial businesses and professions (DNFBPs); and (c) issuing a regulation to specialize a unit within the Public Prosecutor's Office to prosecute tax crimes.

DPF2 Trigger #4. The Borrower has further taken measures to enhance the transparency of business operations by: (a) introducing the necessary mechanisms to ensure that information entered in the UBO registry is verified on a risk-based approach, and timely updated as possible, and that sanctions for non-disclosure and/or delayed disclosure are dissuasive; (b) approving the first Action Plan for the supervision of DNFBPs utilizing the risk-based approach in the corresponding Supervision Manual and sectoral strategies; and (c) amending law 52/2016 to improve access in Panama to accounting records on offshore business operations and strengthen sanctions for non-compliance with Exchange of Information (EOI) requests.

Results Indicator #4. Legal persons included in the ultimate beneficial ownership (UBO) registry and risk-based verifications conducted (percentage).

50. **Rationale. Peer evaluations have shown deficiencies in Panama's rules and enforcement on anti-money laundering and combating the financing of terrorism (AML/CFT) and tax evasion, but authorities have been making steady progress to address them.** The fragilities in the AML/CFT and the corresponding reputational risk are a problem for Panama because it might discourage further attraction of FDI. Additionally, lack of information and transparency on the UBO of legal persons and shareholder's registration makes Panama vulnerable to criminal activities and makes it easier for taxpayers to evade taxes domestically and abroad. Some of these deficiencies have also raised questions on whether Panama will be able to provide effective international cooperation, particularly in the investigation of tax offences. In recent years, propelled by external reviews, Panama has passed several laws and regulations with the aim of improving the transparency of the UBO of Panamanian corporations, foundations and other legal arrangements. Law 23 of 2019 mandated financial, non-financial and other agents to maintain updated registries of information on ultimate beneficial owners and to report related suspicious activities to the relevant authorities. This addresses one of the most significant deficiencies identified by the regional Financial Action Task Force (FATF) body for LAC (*Grupo de Acción Financiera de Latinoamérica* - GAFILAT) in a mutual evaluation report from 2018[47] and the Global Forum on Transparency and Exchange of Information for Tax Purposes (GF). The Superintendence of Supervision and Regulation of Designated Non-Financial Businesses and Professions (DNFBPs) has increased monitoring and supervision of the approximately half a million identified DNFBPs, including resident agents of legal persons.

51. **Substance of Prior Action. The most recent efforts from the government on AML/CFT and tackling tax evasion is the compulsory registration of the UBO of legal persons in a government-run registry and the assignment of competence within the public prosecutor's office to prosecute fiscal crimes.** Panama has now created and regulated a registry of UBO, managed and maintained by the Superintendence of DNFBPs, as a repository of the information of

[47] https://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/MER-GAFILAT-Panama-Jan-2018.pdf

UBO of all legal persons created in Panama **(DPF1 Prior Action #4.a and #4.b).**[48] Therefore, legal persons have the obligation to disclose their UBO to their respective resident agents, who are in turn under the obligation to register this information under the newly created registry of UBO. Finally, effective investigation and prosecution requires independence and resources, something that can be achieved through the specialization of a unit within the Attorney General's Office on the investigation of fiscal crimes **(DPF1 Prior Action #4.c)**. This places Panama closer to the goal of compliance with FATF and GF recommendations on transparency of UBO of legal persons.

52. **The UBO registry regulation must ensure that all elements needed for its effectiveness are present.** Following best practices, for the registry to be effective, the following features must be present: (i) information must be effectively verified, (ii) dissuasive sanctions for non-compliance or for maliciously providing false information, including through the timely cancellation of the legal entity when there are consistent delays in providing the required information; and (iii) law enforcement agencies and other relevant agencies should be able to access information in a timely manner for the purpose of domestic investigations and international cooperation. International standards issued by FATF require that countries ensure that information on the UBO is maintained accurately and updated on a timely basis. Panama needs to ensure the implementation of this criterion, by requiring legal persons to update their information periodically and immediately after changes occur. Currently, it is unclear whether the legal entity has 30 days to notify the resident agent, and the resident agent has an additional 30 days to notify the registry, allowing the entity to operate for a total of 60 days without updating the information on the UBO. More importantly, performing verifications of the information provided on a risk-based approach will allow the UBO registry to ensure the accuracy of the information and detect those legal entities with unclear or false reporting. While verification is not currently in the FATF standards, it is a recognized international best practice, utilized by other international financial centers. This accuracy of the information often depends on the severity of sanctions, which must include the cancellation or suspension of the legal person itself. Law enforcement authorities, tax authorities, the financial intelligence unit and other relevant authorities within the AML/CFT system must have timely access to the information contained in the UBO registry. This is also necessary for effective international cooperation.

53. **DPF2 Trigger #4. Panama's gradual adherence to international standards on AML/CFT and tax transparency will increase transparency, reduce opportunities for money-laundering and tax evasion (including offshore), and aid tax revenue collection, all supporting a fiscally sustainable economic recovery.** The establishment of the UBO registry, if properly maintained and monitored, will constitute an important step in Panama's efforts to tackle money laundering and tax evasion, and contribute to mobilizing domestic revenues. The country will also achieve a key milestone in international cooperation to tackle illicit financial flows in general, as well as tax evasion and aggressive tax avoidance.[49] **(DPF2 Trigger #4)** will ensure that the UBO registry is operational, that inspections are carried out by supporting the rules and procedures for verification of the information, and that sanctions for non-disclosure and delayed disclosure are dissuasive.

54. **Expected Results Indicator.** These policy actions will be monitored by the number of legal persons in the UBO registry in a manner and substance aligned with international standards. In addition, this trigger will improve international cooperation on tax evasion by ensuring that accounting information of companies with offshore operations is available in a timely manner. Combined with other ongoing country's tax administration and expected tax policy efforts these measures will help enforce tax payments, especially among large taxpayers, by providing

[48] The team has prepared a formal risk analysis in accordance with LEG's Guidance Note on Criminal Justice Activities. The team is confident that the measure is not only critical and aligned with the technical team's recommendation but also within the Bank's mandate.
[49] Removal of the international lists on AML/CFT and tax cooperation is done only after a peer evaluation from GAFILAT and other bodies based on the effectiveness of the measures taken, not on technical compliance, following a confidential action plan agreed between the country and the international peer review body.

information on operations (domestic and foreign) of legal entities incorporated in Panama.

Box 3*: Recent Developments on Tax Transparency and Financial Integrity*

Following the leak of documents from a private legal firm in April 2016, Panama was put on the spotlight regarding financial integrity and tax transparency. It is currently included in three lists: (i) FATF, (ii) EU (European Union) list of non-cooperative jurisdictions, and (iii) the Global Forum on Transparency and Exchange of Information for Tax Purpose.

Panama was included in the FATF list of jurisdictions with strategic deficiencies on June 2019 following a Mutual Evaluation Report (MER) on AML/CFT. Panama rated LE (low level of effectiveness) on three of FATF's 11 immediate outcomes (IOs), and LC (low level of compliance) on 22 of FATF's 40 recommendations. The main deficiencies are: (i) lack of understanding of Panama's risks of money laundering, (ii) implementation of a risk-based approach supervision of DNFBPs, (iii) increased transparency in ultimate beneficial ownership information; and (iv) increased investigative and prosecutorial capacity. As part of the process, Panama agreed to an action plan with the FATF in order to overcome these deficiencies.

On November 2019, the Global Forum published the results of the second-round review of the exchange of information on request (EoIR) on Panama, which included revised criteria. Panama received an overall rating of "partially compliant." Because Panama does not have a rating of at least "largely compliant" from the Global Forum and has not resolved that issue yet, it was included in the EU list of non-cooperative jurisdictions for tax purposes. In line with the deficiencies found by FATF, the Global Forum peer review report found some deficiencies in the implementation of the tax transparency standards leading to a "partially compliant" rating. Panama was then included in the EU list because of failing one element of the transparency criteria.

Panama was included (for a second time[50]) in the EU list of noncooperative jurisdictions for tax purposes on February 2020. The Code of Conduct Group (CCG) issues the list of non-cooperative jurisdictions as part of its on-going monitoring process, which evaluates three aspects that overlap to a large extent, but not fully, with FATF criteria: (i) tax transparency (i.e., standard on fiscal transparency), (ii) fair taxation (i.e., not having any preferential tax measures that could be regarded as harmful) and (iii) implementation of anti-base erosion and profit shifting (BEPS) standards.[51]

Panama has been taking strong measures to address the abovementioned deficiencies. The following is a list of the legislative, regulatory, and implementation steps taken by the country since January 2019:

- January 2019: Panama passes Law 70, which makes tax evasion a predicate offense to money laundering when the Panamanian Treasury has been defrauded, and which obliges non-financial agents and others to monitor changes in beneficial ownership and report suspicious activity related to it.
- January 2019: Panama signs the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports (CbC MCAA).
- January 2020: Panama creates the Superintendence of non-financial businesses and professions,

[50] In the June 17, 2015 communication 'A Fair and Efficient Corporate Tax System in the European Union: 5 Key Areas for Action', the Commission included the Republic of Panama on the list of non-cooperative tax jurisdictions for the first time.

[51] The EU list is the result of a screening process followed by non-public discussions of the EU Council's Code of Conduct Group (CCG) on Business Taxation. The three screening criteria are: 1) Transparency: The country should comply with international standards on automatic exchange of information (CRS in the process of implementation) and information exchange on request (largely compliant rating by the GF). It should also have ratified the OECD's multilateral convention or signed bilateral agreements with all Member States, to facilitate this information exchange; 2) Fair Tax Competition: The country should not have harmful tax regimes, which go against the principles of the EU's Code of Conduct or OECD's Forum on Harmful Tax Practices. Those that choose to have no or zero-rate corporate taxation should ensure that this does not encourage artificial offshore structures without real economic activity; 3) Base Erosion and Profit Shifting (BEPS) implementation: The country must have committed to implement the OECD's BEPS minimum standards.

supervision body of resident agents, among others.

- March 2020: Panama passes legislation (Law 129) to create a registry of UBO for legal entities and ratifies the mandate of financial, non-financial and other agents to maintain updated registries of information on beneficial owners and to report related suspicious activities to the relevant authorities.
- June 2020: Attorney General of Panama appoints a specialized prosecutor to deal with tax fraud cases.
- July 2020: Panama includes (Executive Decree 343) one of its major partners (Colombia) in the list of jurisdictions for automatic exchange of information (Common Reporting Standard).

DPF1 Prior Action #5. The Borrower has taken steps to improve transparency and accountability by: (a) amending the public procurement law to: (i) facilitate an increase in competition; (ii) curb corruption; and (iii) promote sustainable procurement by mandating the establishment in the procurement processes for all public entities criteria on, *inter alia*, sustainability and energy efficiency; and (b) issuing a resolution that establishes the steps, procedures and responsibilities necessary to ensure the generation of reliable and consolidated financial statements for the central government.

DPF2 Trigger #5. The Borrower has: (i) issued regulations supporting the roll out of a new, last-generation, electronic-procurement platform (*PanamaCompra 3)* to all central government agencies to improve efficiency, transparency and control, and (ii) made progress to generate reliable and consolidated financial statements for the central government by: (a) validating and reporting to ISTMO the accounting balances of bank accounts of all central government entities and the Treasury's General Account, (b) reporting in ISTMO all central government revenues, including tax and non-tax revenues, and (c) clearing all the accounting inconsistencies of Control Accounts 993 and 994 for all central government entities.

Results Indicator #5. Central government institutions using e-procurement system (*PanamaCompra 3)* (number).

Results Indicator #6. Publication of consolidated financial statements (number).

55. **Rationale. Public procurement rules and regulations have been subject to numerous changes since the enactment of the Public Procurement Law in 2006, but problems with transparency and due process persisted.** These modifications created new procedures such as abbreviated bidding processes, competitive procedures for low-value procurement, adjusted terms for bids submissions, mandatory training for procurement officials, and impediments for those involved in corruption cases to participate. Nevertheless, problems with principles of transparency and due process still existed, which enabled improper use of public funds. The legal framework did not include provisions for price and market analysis, mechanisms for citizens' complaints or arrangements for civil society and private sector participation. It was also missing provisions for transparency and accountability in the full public procurement process, including for open contracting practices and the publication of open data. Neither did it contain provisions to promote better distribution of public resources across the country.

56. **Substance of Prior Action. Since 2019, the National Directorate for Public Procurement (DGCP) has been working on amending the public procurement law to address these limitations, with an aim to improve efficiency and transparency, and promote institutional strengthening.** The changes to the procurement law **(DPF1 Prior Action #5)** introduce new accountability mechanisms, strengthen citizen participation, establish a clear prioritization mechanism to give better opportunities to Panamanian companies to compete within the system, and improve fiduciary controls. They also strengthen institutional arrangements to enhance fairness and efficiency within the system to give opportunities to a larger number of bidders to participate, facilitating the participation of micro, small, and medium enterprises in the procurement market, as well as local providers in the various geographical areas of the country. The changes draw on international good practices and enhance policies and procedures, with an aim to overcome common obstacles in public procurement. Improved efficiency and transparency enabled by the changes

to the law will help address budget constraints and support the fiscal sustainability of the economic recovery.

57. **The changes to the public procurement law incorporate energy efficiency and sustainability considerations in the selection criteria to improve the assessment of the total cost of ownership in the lifespan of the purchases.** Including energy efficiency and sustainability criteria in public procurement processes will maximize efficiency in the use of public proceeds and the social economic return of all public purchasing procedures. An adequate lifespan cost-benefit analysis incorporating externalities and overall operational costs of the purchased goods will reduce fiscal expenses in electricity (government electricity consumption currently account for 13 percent of total electricity consumption in Panama), increase energy efficiency and reduce related GHG emissions. All economically viable energy efficiency measures incentivize the optimization of the existing infrastructure, delaying and reducing the need to develop further infrastructure, increasing the reliability of energy supply.

58. **DPF2 Trigger #5. The achievement of the objectives set by procurement law reform will enable the use of more advanced technology in procurement processes.** The Panama e-Procurement system (*PanamaCompra*), which was a great innovation when introduced in 2006, is now outdated. Currently, it covers the process of publishing procurement opportunities and receiving proposals, as well as the processing and management of framework contracts. However, it does not generate controls in the procurement planning or in the subsequent execution of the contract and payment processes, among others. With support from the World Bank, the GoP is in the process of designing and establishing the technical specifications of a new e-Procurement platform (*PanamaCompra 3*), which will improve efficiency, transparency, and performance. The development of the platform is well advanced and following adjustments to reflect the new law and delivering training to procuring agencies, it is expected that the new *Panamacompra 3* system will be rolled out to all central government agencies (**DPF2 Trigger #5**) in January 2021.

59. **As a result of the new e-Procurement system, users will benefit from an efficient and agile system which will enhance efficiency, increase effectiveness, reduces administrative time and costs for the state and its suppliers**. The new electronic procurement system will allow online transactions with access to a virtual office on a personalized desktop. It will establish better controls for the monitoring of public expenditure, linking the execution of public purchases with their respective budget and financial register. In addition, it will establish controls for tracking the execution of contracts. Being integrated with other institutional process modules that will be interconnected with other government entities, the system will include a detailed electronic record of the procurement process all the way to the payment stage, which will considerably reduce costs, increase efficiency in the use of public funds and contribute to GoP fiscal sustainability.

60. **In addition to the Procurement reform, the GoP is implementing a set of key reforms to strengthen and modernize planning and budgeting, the financial management system and the financial control framework.** The GoP is in the final stages to fully develop their Integrated Financial Management Information System (ISTMO), which aims at providing a modern platform that integrates accounting, budgetary, and treasury functionalities in the public sector. The ISTMO system has been rolled out in all central government agencies and in most decentralized entities but has yet to be deployed to all processes. To support ISTMO, Panama is pursuing reforms in public sector accounting through the gradual implementation of International Public Sector Accounting Standards (IPSAS) and the expansion of the Treasury Single Account (TSA), which has already integrated all budgetary accounts of the Central Government entities. However, ISTMO still faces important challenges associated with the quality of the data, which requires writing off and reconciling underlying financial inconsistencies that prevent the presentation of government consolidated financial statements.

61. **The government has taken concrete steps to ensure compliance with financial reporting requirements and good international public sector accounting practices**. This was done by mandating, through Ministerial Resolutions

by the Ministry of Economy and Finance, the introduction of necessary conditions and procedures for the generation of consolidated financial statements of the central government. Those conditions include lowering material inconsistencies to a level where those inconsistencies are non-significant relative to the balance with no impact on the decisions or assessment by the users of such consolidated financial statements. More specifically, this entails clearing initial balances of ISTMO, reconciling inconsistencies regarding the operations of the TSA system, and including additional financial information on state fixed assets (property, plant and equipment), tax and non-tax revenues. The actions necessary to advance on all these fronts have been included in the "Institutional Plan that establishes the procedures and responsibilities necessary to ensure the generation of Consolidated Financial Statements of the Central Government", whose implementation is mandated by the Ministerial Resolution.

62. **Expected Results Indicator.** These policy actions will be monitored by the number of central government agencies using *Panamacompra 3* and publication of consolidated financial statements. An ex-post integrity analysis of the *Panamacompra 3* system will also be carried out.

***DPF1 Prior Action #6*.** The Borrower has enacted a law creating the Public Private Partnership regime to regulate the institutional framework and the processes for the development of investment projects under the public-private modality including the creation of a National Secretariat for PPPs to facilitate a more efficient design, procurement, and maintenance of public infrastructure, the saving of fiscal resources, and an increase of private investment.

DPF2 Trigger #6. The Borrower has enacted: (a) a general regulation to operationalize the PPP law and staff the National Secretariat for PPPs; and (b) all PPP specific regulations relating to budgetary, public finance management, and fiscal risks to design, procure, and maintain public infrastructure more efficiently, save fiscal resources, and increase private investment.

Results Indicator #7. Private sector financing mobilized to fund infrastructure services under the PPP law (US$).

63. **Rationale. Panama has made important strides in meeting its infrastructure needs, however, attracting private finance for infrastructure will help accelerate the provision of key services especially in a declining fiscal space environment.** Recent infrastructure investments included bridges, metro, urban regeneration, energy and water such as the expansion of the Panama Canal, the Tocumen International Airport and Panama City's first metro line. Panama's recent growth is due to high levels of infrastructure investment, with total investments in infrastructure reaching 4.5 percent of GDP according to Infralatam,[52] mainly focused in the transport and logistics sector (4.3 percent), followed by water and sanitation (0.22 percent). However, the fiscal situation after the COVID-19 pandemic will reduce the available fiscal space for infrastructure investment. This might undermine an inclusive economic recovery given the profile of jobs infrastructure investments generate, and the social benefits generated by closing the infrastructure gap. Despite the sizeable investments in water and sanitation and roads, challenges remain in terms of access to basic water and sanitation, particularly in rural areas. The 2015 Panama SCD identifies roads as the weakest link in Panama's successful logistics network. Terrestrial access to rural and Indigenous populations is cut off in many places for nine months of the year, limiting these communities' capacity to access schools, health centers, and markets.

64. **PPPs can be an effective way to boost infrastructure investment through the mobilization of private financing, but until recently, Panama lacked an adequate framework for private participation in infrastructure.** According to the World Bank's *Procuring Infrastructure PPPs 2018,* Panama's systems were amongst the weakest for preparation of PPPs. The main regulatory instruments were the Administrative Concessions Law and the Public Procurement Law

[52] Available at: *http://inicio.infralatam.info/*

complemented by specific instruments governing the participation of private capital in sectors. Law 2 of 1997 provides a legal umbrella for the participation of private capital in the water and sanitation sector and Law 5 of 1998 allowed for administrative concessions for public works and tasked the Ministry of Public Works to prepare the studies, contract construction, and monitor projects. The framework in force before the 2019 Law lacked processes for the fiscal treatment of PPPs; assessment of fiscal affordability; comparative assessment including value-for-money; and assessments of bankability and financial viability.

65. **Substance of Prior Action. A new law was approved in 2019 (Law 93 of 2019) providing a sound framework for the development of PPPs**. The law applies across sectors to projects with contracts longer than five years.[53] While some agencies are excluded from the purview of the law – for example *Instituto de Acueductos y Alcantarillados Nacionales* (IDAAN) and the Panama Canal Authority – the new law provides both a good institutional framework and sets out important principles for the development of the PPP program, which are based on international good practices. Some notable aspects of the law include: (i) the requirement that projects pursued as PPPs be part of the five-year investment plan, (ii) PPPs should be procured under a competitive framework, (iii) the establishment of a set of analyses that have to be done as part of project preparation; and (iv) renegotiations and adjustments to contracts cannot go beyond a certain limit of contract value. The new law also sets out a key fiscal parameter for managing PPPs contingencies, such as: (i) the governing body may not approve the contracting of new PPP projects when the present value of direct and contingent liabilities, including concessions, is above 7 percent of GDP; and (ii) individual public entities cannot contract PPPs when the sum of direct and contingent liabilities, including concessions, is above 30 percent of recent or projected public investment. The law establishes a governing body for PPPs, which is an inter-ministerial body, as well as a National Secretariat of PPP (*Secretaría Nacional de Asociaciones Públicas Privadas* - SNAPP), which is the country's PPP unit, and is followed by the general regulation of the law with the operational details **(DPF1 Prior Action #6).**

66. **DPF2 Trigger #6. PPPs can carry significant fiscal risks, which should be further addressed by proper fiscal regulations.** Due to its amounts, long-term nature and complex contractual arrangements, PPPs require specific public financial management regulations and mechanisms to address fiscal risks. While the law already includes fiscal provisions, those need to be further refined by issuing and devising procedures related to PPP **(DPF2 Trigger #6).** These include: (i) a directive on the budgeting of PPP projects and in particular the manner in which availability payments will be recorded and budgeted annually; (ii) the procedures to manage fiscal risks (including the standard risk matrix and models, decision-making procedures for retaining or transferring risks, and policy to provision or transfer the risks retained by the state); (iii) a regulation on capital market, including instruments the authorities might use to enhance financial conditions faced by the sponsor or address certain risks for long-term investors (e.g., pension funds); and (iv) norms related to the accounting of PPP projects in the public sector balance sheet, including adopting the relevant IPSAS to avoid financing projects off-balance. Furthermore, there will be a need to develop capacities in the MEF to assess the fiscal costs and risks of PPPs and in line agencies to permit them to play their important role in PPP program delivery. MEF should be in the lead in terms of developing the approach to the measurement and monitoring of fiscal costs and risks from PPPs.

67. **Expected Results Indicator. The new PPP law and its regulations will create the institution needed for larger and fiscally responsible private financing of infrastructure.** The expected result is the increased participation of private sector in infrastructure projects, but also the development of an institutional framework that will ensure that PPP projects are done properly with careful assessment of competing projects according to its benefits, costs, and

[53] The procurement law does not apply to the procurement of PPPs, which is governed solely by the PPP law.

fiscal risks. These policy actions will be measured by the amount of private sector financing mobilized to fund infrastructure services under the new PPP framework.

Pillar C – Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery

68. **The COVID-19 crisis brings an opportunity to support reforms to make the recovery more inclusive and environmentally sustainable.** Panama's rapid growth has not benefited its population equally with rural and Indigenous populations lagging behind. Additionally, the impact of the COVID-19 crisis is more pronounced in these groups. Therefore, this pillar supports institutional reforms to ensure these people will have the assets and support to benefit more in the recovery. Finally, this pillar supports reforms to create institutions for carbon offsets and markets.

DPF1 Prior Action #7: The Borrower has enacted a law for the development of family agriculture to promote the provision of financial and technical assistance to family farmers to improve the productivity of their agriculture activities and to increase their food and nutritional security.
DPF2 Trigger #7: The Borrower, through the CONADAF and the Ministry of Agriculture, has established and funded the Family Farming National Fund to address barriers for family farmers, particularly women and Indigenous Peoples, to benefit from financial and technical support to improve the productivity of their agriculture land and to increase their food and nutritional security.
Results Indicator #8: Family farmers benefiting from the Family Farming National Fund (number and percentage).

69. **Rationale. Panama has a large urban-rural income and poverty gap, but public policy has largely been oblivious of family farming.** Panama has a huge development and income gap between the urban setting, which has developed immensely in the last decade, and the rural setting, which is lagging and where poverty is prevalent. Rural poverty was six times higher than urban poverty in 2017 using the US$1.9 poverty line. Panama has around 220,00 family farmers, who represent 80 percent of the farms in the country, of which 30 percent are managed by women and 3 percent by Indigenous women. Those farmers are only marginally supported by the current agricultural policy, which is focused on medium and large agribusiness firms. Women in agriculture face additional challenges that limit their potential: (i) low labor participation; (ii) income differentials in the provision of their labor force; (iii) lack of recognition to assume a leading role for the development of the sector. Gender inequalities hinder the ability of rural women to gain access to public sector investment programs and to private financing for improving their productive systems and increasing their income. Rural inhabitants are among the hardest hit by the COVID-19 pandemic due to declines in household incomes, changes in the availability and affordability of nutritious foods, and interruptions to health, nutrition, and social protection services, which in the short to medium term is expected to lead to significant rises in food insecurity, malnutrition, and micronutrient deficiencies.

70. **Substance of Prior Action. The GoP has approved the Family Farming Law (FFL) to address these gaps in public policy and help close the rural-urban income, poverty and gender gaps, which will foster a more inclusive economic recovery.** The FFL **(DPF1 Prior Action #7)** stipulates important measures for institutional and policy strengthening and explicitly recognizes small farmers' contribution to the country's food security and cultural identity. The design and implementation of tailored policy interventions is necessary to unlock family farmers' full socioeconomic potential, while supporting a renewed agenda of promoting a more inclusive and sustainable economic growth. The law highlights and endorses a need to create mechanisms for increasing the participation of women, Indigenous and Afro-descendant communities. The law was elaborated through a participatory process. Farmers and key institutions

convened in a policy dialogue mechanism, which was later instituted by the GoP as the National Committee for Family Farming (CONADAF). The main pillars envisaged in the law are: (i) the establishment of a single registry for family farmers (*Registro Único de Agricultores Familiares* - RUAF), an ICT-based tool for facilitating timely decision-making process and improving the impact of the public investments; (ii) a National Family Farming Plan (*Plan Nacional de Agricultura Familiar* – PNAF) to identify investment priorities for a swift implementation of the law; and (iii) a family farming national fund included in the government's budget to benefit registered farmers through investments defined in the plan.

71. **DPF2 Trigger #7. The implementation of a key pillar of the FFL - the Family Farming National Fund - will allow for a more inclusive economic recovery.** Reorienting policy efforts in favor of the family farming requires a better understanding and characterization of more than 220,000 family farmers across the country. The implementation of the RUAF enables the GoP to target and maximize the impact of economic recovery initiatives, focusing on enrolling women, Indigenous and vulnerable communities in the rural areas. Yet, RUAF's information will enable the Family Farming National Fund **(DFP2 Trigger #7**) to target and implement investments (e.g. seeds, fertilizers, technical assistance (TA) on climate-smart agricultural and nutrition-smart agricultural technologies including post-harvest management for preservation of nutritional value of produce, climate-smart watering equipment) to support the recovery phase of vulnerable households by strengthening their food and nutritional security, diversifying their incomes and ability to adapt to climate change, and building capacity to sustain these benefits and build resilience going forward. The eligibility of beneficiaries to access these resources is based on their registration in the RUAF, which defines a series of socioeconomic variables that are specific to preserve the identity, culture, and tradition of small farmers, such as the size of the agricultural area, income, type of crops, and agricultural practices, among others. The RUAF is expected to prioritize and provide the required data to enhance the analysis and attention to gender gaps, including barriers to improve productivity, access to markets, financial products and specialized technical assistance. By incorporating key aspects for the analysis and attention of gender gaps, it is expected that at least 40 percent of the beneficiaries of this fund are women so that female farmers are well-represented among the beneficiaries, thus promoting the attention of their specific needs, concerns, and aspirations. Moreover, it is expected that 40 percent of beneficiaries are Indigenous Peoples.

72. **The operation of the Family Farming National Fund will allow family farmers to benefit from financial and technical assistance to improve their yields and the productivity of their agricultural land.** This financial instrument will provide the necessary technical and financial assistance, including female-specific needs in regard to training and mentoring programs, to have a higher impact and improve the livelihoods of family farmers. Moreover, its structure including the RUAF as the tool for registering family farmers at the national level, will be able to determine the requirements for specific investments and implementation arrangements, improving the efficiency and impact of investments, financed by national or external sources, in order to continue reducing gender sectorial gaps as well as the poverty gaps identified between the country's rural and urban communities.

73. **Expected Results Indicator.** These policy actions will be monitored by the number of family farmers benefiting from the Family Farming National Fund, as recorded in the RUAF. The design and operation of the RUAF is being supported by FAO, which is also generating in-house capacity within the Ministry of Agriculture. The RUAF is expected to monitor how the investments facilitated through the Family Farming National Fund are improving the beneficiaries' income and enabling them to move from an initial stage where their production hardly provides for their consumption but do not manage to cover all their needs, to a stage where they have the capacity to produce what they consume, and have links to sell small quantities of surplus to local markets or intermediaries. Although the ultimate objective of this policy is to contribute to incremental productivity, food and nutritional security, incomes, and good agricultural practices, such results are likely to materialize only after 2022, thus not lending itself to be a

results indicator for this operation.

DPF1 Prior Action #8: The Borrower, through the Ministry of Environment, has issued a regulation establishing the legal basis to facilitate: (a) the recognition of collective land to Indigenous Peoples on national protected areas, (b) the improvement of security of tenure, and (c) the reduction of pressures on natural resources.
DPF2 Trigger #8: The Borrower has approved a legal framework establishing actions for the development of Indigenous Peoples in Panama through participatory processes, in line with international good practices.
Results Indicator #9: Total area of national protected areas under enhanced conservation and social inclusion regulation (hectare).
Results Indicator #10: Programs registered in SINIP that have been designed in consultation with the IP Council (number)[54].

74. **Rationale. Indigenous territories, such as *Comarcas* and Collective Lands, are characterized by high levels of extreme poverty, lack of public services, and poor social outcomes.** Although 22 percent of Panamanian territory is recognized as a *Comarca* or under a Collective Land tittle, poverty rates remain the highest within Indigenous territories when compared to other rural, non-indigenous or urban areas[55]. As of 2017, poverty and extreme poverty rates in *Comarcas* averaged 82 percent and 65 percent respectively, in comparison to poverty and extreme poverty rates in rural, non-indigenous and urban areas, which were closer to national averages. The Multi-Dimensional Poverty Index, launched in 2017, shows that the average poverty rate of the three largest Indigenous territories in Panama exceeds by 4.5 times the national average. Disparities between Indigenous territories and rural, non-Indigenous and urban areas are also reflected in access to basic services and opportunities. Enrollment rates for Indigenous children in indigenous territories are almost 10 percentage points lower than for rural, non-indigenous children. Only 61 percent of Indigenous Peoples have access to piped water and 18.7 percent to sanitation, compared to 95 percent and 63.9 percent of non-indigenous Panamanians, respectively. Health indicators for Indigenous Peoples in comparison to non-indigenous population also show large disparities, with child mortality under-five years being 38 per 1,000 live births in Indigenous territories compared to rural, non-indigenous areas where it is 19 per 1,000 live births. Maternal mortality is over four times higher for Indigenous women than for rural non-indigenous women. In terms of wage disparities, the average daily wage in Indigenous territories is US$3 compared to the average daily wage of US$22 and US$10 for the urban and rural, non-indigenous areas, respectively. Indigenous Peoples face structural and practical barriers that prevent them from gaining visibility and voice in national debates and policy-making. Experience shows that strong voice and participation in all phases of development (from design through implementation) are crucial for vulnerable groups to establish a productive dialogue to reverse current inequities.

75. **Territorial protection paired with the development of Indigenous Peoples' lands is critical for the sustainability of short- and medium-term interventions to mitigate economic and social impacts of COVID-19.** Social and economic impacts of COVID-19 have highly impacted Indigenous Peoples due to their higher vulnerability, poor access to health care, limited communication channels, higher prevalence of underlying conditions, and poor connection to markets, services and opportunities. Healthcare centers in Indigenous territories do not meet the minimum conditions to attend to COVID-19 patients, nor do they offer, tests, tracing or treatment for COVID-19 patients, exacerbating the already significant gaps in access to quality and culturally pertinent health care. Loss of

[54] Only programs located in Indigenous territories are expected to be consulted with the IP council. Thus, the target must be assessed against the number of programs registered in SNIP that are located in Indigenous territories and not the total number of programs.

[55] All data from this paragraph comes from *World Bank Group. 2015. Indigenous Latin America in the Twenty-First Century : The First Decade. World Bank. © World Bank. https://openknowledge.worldbank.org/handle/10986/23751 License: CC BY 3.0 IGO*

income due to drastic reductions in livelihood activities, closure of communities and local markets, and public transportation have also greatly limited the capacity of Indigenous Peoples to purchase or get access to food and basic supplies. Finally, territorial conflicts have intensified, in some cases due to the lack of state presence and in others due to mobility restrictions which hinder the ability of communities to organize and defend their territories.

76. **Insecure land rights are a hindrance for protecting the livelihoods of Indigenous Peoples and preservation of protected forestry areas.** Panama is among the countries with the highest percentage of forest coverage in the world, covering 60.4 percent of the country's total area. It is estimated that two-thirds of Panama's forest coverage are in Indigenous Peoples' traditional territories. Close to one million ha of the indigenous territories have dual tenure, meaning they are simultaneously both Indigenous territory (*comarcas* or claimed lands) and protected areas. The Indigenous Peoples living in these areas suffers from high-poverty levels and are the most affected by environmental degradation. Indigenous lands are held both as *comarcas* (each one created by law and with remarkable autonomy), and collective lands, based on Law 72 of 2008, which prohibits the sale and lease of these lands. Under this law, there were numerous Indigenous Peoples' claims that have been pending resolution. The GoP made several efforts in recent years, but there were still several challenges to be addressed, such as clear demarcation of protected areas and indigenous territories, and resolution of claims for collective lands.

77. **Substance of Prior Action. The GoP has issued legal directives to address the remaining claims of Indigenous Peoples to land, protecting their livelihood.** The resolution DM-0612-2019 **(DPF1 Prior Action #8)** acknowledges the pre-existence of rights acquired by Indigenous communities over the lands they have traditionally occupied and approves the exemptions foreseen on Law 41 of 1998 and from Law 1 of 1994, to collective land adjudication requests submitted by Indigenous communities, whose lands are partially or totally overlapping protected areas or lands of the State Forest Heritage, as long as traditional occupation happened before the creation of the respective protected areas, or in the case of State Forest Heritage lands, that the occupation happened before the entry into force of Law 1 of 1994. This resolution addressed a legal gap, allowing the Ministry of Environment to resume land adjudication in these areas. Indeed, the Vice-Ministry of Indigenous Affairs is elaborating and submitting to the Ministry of Environment (*MiAmbiente*) the required technical reports on whether communities meet the requirements in the resolution together with the proposed community-driven management plan. *MiAmbiente* then assesses the claim and, if approved, sends it to the national land administration authority to issue the land rights. Effective community participation is being done by the participation of a national Indigenous organization (*Coordinadora Nacional de Pueblos Indígenas de Panama,* COONAPIP), ensuring redress mechanisms are in place.

78. **These lands will be managed under policy instruments that allow forest preservation, while protecting Indigenous Peoples livelihoods, ensuring a more inclusive economic recovery**. Such management plans should be indigenous-led and reflect authentic community visions. At the same time, the plan articulates the specific environmental management instrument applicable to overlapping polygons in protected areas. As a result, the management plan will promote a more sustainable use of resources to maintain Indigenous Peoples livelihoods, the conservation of forests and the subsequent reduction of deforestation. By implementing a management policy instrument, Indigenous communities will be able to generate resources from forestry conservation, while also preserving traditional practices and reducing deforestation. Furthermore, activities such as the generation of green jobs, reforestation, sustainable forest management, development of agroforestry systems (e.g. shade-grown coffee and cacao production), and ecotourism, will ensure rural livelihoods by creating new employment opportunities in rural areas, and ensuring a healthy nutritional supply that decreases the population's vulnerability to possible new epidemics.

79. **DPF2 Trigger #8. Institutions to protect and include Indigenous Peoples are needed to ensure they benefit from economic development in a socially sustainable manner.** The National Congress Commission on Indigenous Affairs

has presented Bill No. 316 **(DPF2 Trigger #8)** to establish measures for the integral development of Indigenous Peoples. An inter-institutional commission formed by the relevant stakeholders including the National Indigenous Peoples (IP) Council, MEF, Ministry of Government (*Ministerio de Gobierno*, MINGOB) and the National Congress is revising this bill to establish a legal framework to institutionalize the participation of Indigenous Peoples in the design, implementation, monitoring and evaluation of public policies that affect them. The revised bill will establish: (i) an overall framework that sets the national public policy towards Indigenous Peoples respecting the interculturality and cosmovision; (ii) process and procedures to ensure planned and participatory development, in line with Indigenous Peoples priorities and cosmovision that ensures Indigenous Peoples meaningful engagement and participation; (iii) promote the joint development of policy actions between the government and Indigenous Authorities, strengthening their institutional capacity to be effective partners in improving the quality of life for their communities, and; (iv) provides clear institutional mandates with delimitation of responsibilities for successful implementation of the law.

80. **The elaboration of this law stems from a long process of engagement with Indigenous Peoples at the forefront**. In 2014, the Indigenous Peoples National Development Plan was approved by the 12 indigenous authorities in Panama. In 2018, through Executive Decree No. 203, the GoP created the National Council for the Development of Indigenous Peoples and recognized the IP National Development Plan as the document setting the guiding principles for development in Indigenous territories. The Council provides a structured platform for coordination between the 12 Indigenous Congresses and Councils and government agencies to execute a coordinated development agenda in IP territories that is in line with the IP National Development Plan. Specific activities of the current Plan are being partially implemented through the ongoing Bank-financed Supporting National Indigenous Peoples Development Project (P157575) and have demonstrated how prioritization of actions can be done through a proactive strategy for engagement with Indigenous Peoples, based on their own articulation of their aspirations and priorities. Although the recognition of the IP Council as a coordinating platform has been an important milestone, lack of regulation to ensure a participatory policy-making process, low government institutional capacity, limited allocation of public resources in indigenous territories and shifting priorities continue to pose significant challenges. This law would provide a roadmap to overcome the significant inequities faced by Indigenous Peoples, promoting programs in Indigenous territories in a way that respects their vision for development and its accompanying regulations will strengthen the institutional mandates to facilitate the implementation of the law. The revision of the current bill is being coordinated with all relevant stakeholders including the Indigenous Peoples Council, MINGOB, MEF and the Indigenous Peoples Commission in the National Congress. A 45-day consultation period is currently open to receive feedback from the public at large on the Bill and the priorities for the development of Indigenous Peoples. During the Second Ordinary Session of the National Indigenous Peoples Development Council held on August 9, 2020, the Council agreed with the need to revise the Bill 316 and the importance to present a modified Bill to the National Congress through Resolution No. 11 from 2020. The Council has also approved a national commission, through Resolution No. 12 from 2020, to update the National Plan for the Development of Indigenous Peoples through a consultations process with Indigenous Peoples leaders and community members to include action areas related to COVID-19 impacts.

81. **Expected Results Indicator. These policy actions are expected to increase preservation of national protected areas and give voice to Indigenous People in the policy-making process and will be monitored by two indicators.** The expected results of these policy actions are increased preservation of national protected areas and the creation of better conditions for the development of Indigenous people through increased land security and voice in policy formulation. These policy actions will be monitored by two indicators. The first indicator measures the land extension of the national protected areas that have been put under enhanced environmental and social regulations under

resolution DM-0612-2019. The second indicator measures the participation of Indigenous Peoples in the policy formulation process in policies affecting IP in a meaningful and substantive way in line with the processes to be set by the supported law.

DPF1 Prior Action #9. The Borrower, through Regulatory Authority for Public Services (ASEP), has modified the regulation on the procurement rules for the wholesale electricity market to facilitate the participation of renewable energy by introducing an alternative that eliminates barriers and provides flexibility in energy supply bids in the tendering process.
DPF2 Trigger #9. The Borrower has reformed energy subsidies, by reducing and targeting fossil fuel subsidies and steering subsidies towards cleaner alternatives.
Results Indicator #11. Energy awarded to variable renewable sources in energy auctions (percentage).[56]

82. **Rationale. The energy sector is central in the decarbonization strategy and a key driver for the economy to become more efficient, competitive, sustainable and resilient.** Reliable, cost-competitive, and sustainable electricity supply is key for an environmentally sustainable economic recovery, and green energy investments can become a driver to reactivate the economy and create jobs after the crisis. Investment in clean energy infrastructure can play a major countercyclical role in the economic recovery and job creation, providing economic opportunities to vulnerable communities after the crisis. A recent study[57] argues that “clean energy infrastructure investment” is among the investments that show the highest long-term multipliers and the highest potential climate impacts. The GoP is committed to accelerate the transition towards a green economy and support the economic recovery after the COVID-19 pandemic. As a result, the Panamanian Secretariat of Energy has initiated public consultations on the preliminary draft of the Strategy for the Energy Transition Agenda, which fosters to transform the energy sector in a more decarbonized, decentralized, democratic, and digital sector through the following strategies: (i) universal access, (ii) efficient use of energy, (iii) electromobility, (iv) distributed generation; and (v) modernization of the power system and market.

83. **Substance of Prior Action. Panama has removed barriers to the participation of renewable energy in the power sector by allowing a broader range of bidding alternatives to supply electricity, which accommodate the technological limitations of variable renewable energy, ultimately contributing to the decarbonization strategy and a more competitive and cost-efficient market.** One of the main pillars in the energy transition and decarbonization agenda is the progressive increase in the share of renewable energy in the power generation matrix. Biddings to supply future demand have been traditionally designed to procure energy on a firm capacity basis. Variable Renewable Energy (VRE) like wind, solar and run-of-the-river hydro, can supply energy but not on a firm capacity basis, due to the variable nature of the primary resource, and thus cannot compete with other conventional technologies which can provide both. ASEP has modified the power procurement regulation to tackle existing barriers to the addition of larger amounts of renewable energy in the power sector and facilitate green investment, by designing tendering processes which allow flexible bulk non-time-bound energy biddings –eliminating time restrictions to supply, aligned with technological limitations of VRE **(DPF1 Prior Action #9)**. This policy action allowed the market to benefit from the recent drop in costs of these technologies.

[56] To avoid distortions in the indicator resulting from power auctions –in which the system operator bids primarily power but could include some marginal energy purchases–, “Energy auction” is considered an auction in which the energy bided amounts to at least 10 percent of the annual energy demand of the country, which reached 8,413.29 GWh in 2019.
[57] Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change? Cameron Hepburn, Brian O’Callaghan, Nicholas Stern, Joseph Stiglitz and Dimitri Zenghelis (Forthcoming in the Oxford Review of Economic Policy 36(S1)); https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf

84. **DPF2 Trigger #9. As part of the Energy Transition Agenda, the Borrower will revise and reform energy subsidies –in particular to LPG–, by steering subsidies from fossil fuel towards the promotion of cleaner technologies (DPF2 Trigger #9).** The recently published energy transition agenda include a holistic revision of the current subsidy framework for electricity and fossil fuels, aligning them with the energy transition objectives. In 2019, electricity and LPG subsidies in Panama reached US$218 million and US$88 million respectively. The Borrower is seeking to explore different alternatives to rationalize the expenditure in subsidies, reducing its fiscal impact and improving its targeting. In addition to properly adjusting relative prices and subsidizing only vulnerable populations through vouchers and similar programs, the Secretariat of Energy will define alternative options like supporting investments in self-supply initiatives, energy efficiency and solar heaters for sanitary water for households heavily subsidized, which may reduce the energy consumption of these households and subsequently the subsidy, with an estimated subsidy reduction of US$40-60 million per year. The Borrower envisages the deployment of pilots of these technologies to test the feasibility of shifting subsidies to investment incentives.

85. **Expected Results Indicator. The expected results are the progressive incorporation of VRE into the electricity matrix and displacement of marginal thermal technologies like diesel and HFO-fired thermal power plants by increasing the share of renewable sources in energy auctions.** The adoption of the new regulatory framework to procure power capacity eliminates time restrictions to supply electricity to the system, thus addressing one of the main technological barriers for VRE to compete with traditional technologies while maintaining market forces to set electricity prices. In the coming power capacity biddings, a larger participation of VRE will be expected, displacing marginal thermal power generation units and reducing average prices to procure both energy and power (firm capacity).

DPF1 Prior Action #10. The Borrower has issued a decree establishing the Sustainable System of National Greenhouse Gases Inventories (SSINGEI) and creating the National Emissions and Mitigation Actions Registry.

DPF2 Trigger #10. The Borrower has released preliminary guidelines to gradually implement and operate the initial phase of the national GHG emissions trading system, and through the Secretariat of Energy, has approved the Energy Transition Agenda defining policy actions to achieve the Sustainable Development Goals and NDCs.

Results Indicator #12. GHG emissions regulated under economy-wide[58] policy instruments (percentage).

86. **Rationale. Panama is vulnerable to climate change, which will exacerbate the country's development challenges, thus the GoP has committed to undertake important adaptation and mitigation measures to tackle climate change.** Climate change is altering weather patterns and affecting the availability of water resources with severe consequences for the economy, particularly to the Panama Canal, which are highly dependent on the sustainable management of Panama's forests and natural resources. Panama ranks 14th among countries most exposed to multiple impacts from climate change based on land area[59]. The COVID-19 crisis presents an opportunity for countries to establish mitigation and adaptation measures in a greener, more sustainable and resilient way, which can create jobs quickly, generate long-term benefits and lower carbon emissions. Given its extreme vulnerability to

[58] Economy-wide related to climate change policies refers to GHG emissions communicated on a national level without being assigned to a specific economic sector or policy area. *Reduce tu Huella* is an instrument that covers the full range of Panama's climate ambition and all GHG gases.
[59] Expected impacts include the following: increased incidence and intensity of crop failure; increased intensity of heat stress on crop production and vulnerable population; loss of biodiversity and forests; reduced water quality and quantity; and increased incidence of climate-related human health impacts.

climate change, Panama is committed to implement policy instruments for delivering climate actions and has submitted a National Determined Contribution (NDC) to the UNFCCC.

87. **Substance of Prior Action. Panama needs to regulate key aspects of its climate change national policies to rapidly reduce GHG emissions based on equity and in the context of sustainable development and efforts to eradicate poverty.** Panama has taken proactive steps to comply with the Paris Agreement through the development of various policies and institutional arrangements[60] to support the country's strategy to address climate change.[61] The country required further regulation in order to determine its ability to reduce GHG emissions through key sectors such as Energy and Land Use, Land Use Change and Forestry (LULUCF). In 2010, both sectors contributed together with 88 percent of the total GHG emissions in the country.[62] Thus, Panama, through Executive Decree has regulated the provisions of Chapter II- *Mitigation of Global Climate Change* Title V of the Single Text of the General Environmental Law (Law 41),[63] which mandates the preparation of the key elements to provide a transparent and robust accounting and reporting of Panama's climate change commitments. Specifically, the Decree mandates MiAmbiente to set up a Sustainable System of National Greenhouse Gas Inventories (SSINGEI) and create the National Emissions Registry **(DPF1 Prior Action #10)**.[64] This Executive Decree also regulates and creates the *Reduce tu Huella* (Reduce your Footprint) Program for the management and monitoring of sustainable, inclusive, low-emission, and resilient development in the face of the climate crisis in Panama and mandates the creation of a carbon market. The *Reduce tu Huella* framework program will favor the recovery of the national economy and will incentivize the use of renewable energy and guide the transition to the country's carbon neutrality.

88. **DPF2 Trigger #10. Through the Decree, the Borrower will implement a Sustainable System of National Greenhouse Gas Inventories (SSINGEI) and the National Emissions Registry to monitor the economywide results for carbon emission reduction as well as its contribution to the Paris Climate Agreement, and release preliminary guidelines to gradually implement and operate the initial phase of the national GHG emissions trading system.** Moreover, the GoP will show its commitment to the decarbonization of the economy by approving the Energy Transition Agenda which aims at defining policy actions to achieve the Sustainable Development Goals and decarbonization objectives **(DPF2 Trigger #10).** Panama will need to update, report and account NDC commitments based on national GHG inventories. Panama has not quantified emission reductions objectives and targets in its NDC since it does not have a comprehensive monitoring, reporting, and verification (MRV) system in place and faces multiple challenges regarding GHG inventory. Improving the quality of reliable data and enhancing the capacity to monitor emissions are key to Panama. These will allow a systematic tracking of progress regarding meeting domestic policy goals and enabling the potential development of a domestic carbon offset market. The SSINGEI and the National Emissions Registry that will be established by the Borrower will encompass the MRV systems for emissions, mitigation actions and support, and will inform Panama's NDC implementation progress. Furthermore, the Borrower will release preliminary guidelines to gradually implement and operate the initial phase of the national GHG emissions trading system, the core of a carbon market.

[60] Including the National Climate Change Policy (2007), National Committee for Climate Change of Panama, the inclusion of the Climate Change Chapters in the General Environment Law (Law No. 41 of 1998).

[61] Executive Decree 34, 2019. https://www.gacetaoficial.gob.pa/pdfTemp/28788_B/GacetaNo_28788b_20190604.pdf

[62] https://unfccc.int/sites/default/files/resource/Tercera%20Comunicacion%20Nacional%20Panama.pdf

[63] General Environmental Law (Single Text of Law 41 of July 1, 1998) *https://www.gacetaoficial.gob.pa/pdfTemp/28131_A/GacetaNo_28131a_20161004.pdf*

[64] Chapter II assigns to MiAMBIENTE the preparation and periodic publication of a national inventory of GHG emissions, a five-year low-carbon economic and social development strategy, as well as the mandate to establish the necessary mechanisms to attract financial and economic resources through national and international instruments that promote the transition towards low-carbon economic development.

89. **Expected Results Indicator.** These policy actions will be measured by the share of total GHG emissions supervised in the SSINGEI. Acknowledging the instrumental role of the energy sector in the development of carbon markets and the decarbonization of the economy, the Energy Transition Agenda will become a social contract to achieve the Sustainable Development Goals and NDCs. In this sense, the Energy Transition Agenda has been subject to a comprehensive public audience (*Mesas de Diálogo*), pending final approval from the GoP, and includes specific roadmaps to achieve universal access and increasing the use of clean cooking, the decarbonization of the energy matrix, improvements in energy efficiency and electromobility. Finally, the Energy Transition Agenda will create an umbrella for the definition of subsequent legal and regulatory frameworks allowing the regulatory authority ASEP to pass through related investments to the electricity tariff, facilitating the enabling environment to channel private investment towards a more sustainable, inclusive and greener energy sector and thus contributing to the economic recovery by facilitating, signaling and enabling investments in sustainable infrastructure.

Table 4 - DPF Prior Actions and Analytical Underpinnings

Prior Actions	**Analytical Underpinnings**
Pillar A – Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery	
Prior Action #1	• Estimation of expenses in pharmaceuticals per quintile, trends in medicine prices and assessment of stockouts. *Gasto, Acceso y Disponibilidad de los Medicamentos en Panamá, 2007-2012. Instituto Conmemorativo Gorgas de Estudios de la Salud; and MINSA Informe De Resultados De La Encuesta De Satisfacción Del Usuario De Las Instalaciones Por Región De Salud, Año 2019* • Impact of generics medicine policy and interchangeability *Generic medicines Interchangeability of WHO-prequalified generics WHO Drug Information Vol. 30, No. 3, 2016* • COVID-19 scenario and challenges for global vaccine procurement and distribution. GAVI 2020. *The COVAX facility Global procurement for COVID-19 Vaccines.*
Prior Action #2	• The estimation of the learning losses due to the pandemic based on how long schools remain closed comes from: *Simulating the Potential Impacts of COVID-19 School closures on Schooling and Learning Outcomes: A set of Global Estimates (June 2020). World Bank Group. Education Global Practice.* • A description of the international evidence on the education policy responses adopted by countries in response to the pandemic comes from: *The COVID-10 Pandemic: Shocks to Education and Policy Responses (May 2020). World Bank Group. Education Global Practice.* • A description of the international evidence on the use of information and communication technologies in the education sector come from: *Guidance Note: Remote Learning & COVID-19. World Bank Group. Education Global Practice. EdTech Team. April 2020.* • The description on the technical work that supported the prioritization of the curricula during the pandemic comes from: *UNICEF (2020). Diagnóstico de Necesidades y Demandas de*

	Aprendizaje durante el COVID-19 para Niños y Niñas de 4 a 5 años.
Prior Action #3	• The validation of the government approach to the crisis in social protection comes from a compilation of the global knowledge on how countries responded to the pandemic through social protection measures: *Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures. World Bank Group and UNICEF. July 2020.* • The operational description of the Plan Panama Solidario, including the application of the exclusion criteria comes from: *Letter to MEF produced by the Governmental Innovation Agency of Panama AIG. September 2020.* • The estimation of the poverty impact of Plan Panama Solidario comes from: *World Bank calculations based on Labor Market Household Survey 2018*.
Pillar B - Strengthening institutions to support a more transparent and fiscally sustainable economic recovery	
Prior Action #4	• FATF Recommendations 2012. • FATF Methodology 2013. • Panama GAFILAT Mutual Evaluation Report 2018. Panama's 2018 mutual evaluation showed that there existed persistent issues with lack of transparency of UBO. The FATF recommendations and methodology were used to ensure that technical support was aligned with international standards.
Prior Action #5	• Evaluación del Sistema Nacional de Compras Públicas de Panamá 2016. Dirección General de Contrataciones Públicas, BID, Banco Mundial. • Estudio de Mipymes. Dirección General de Contrataciones Públicas, BID. 2020. • Panama: A Vision for the Modernization of Public Procurement Policies and Strategies, WB, 2020. The first study assesses the procurement processes and suggest areas for improvements, while the third one carries out a data analysis to suggest reforms to save resources. The second study informs reforms to increase participation of SMEs. • The technical assistance activity "*Energy Efficiency Potential in Central America (P170772)*" informed the GoP about the more efficient actions to improve the efficiency in the use of energy and reduce GHG emissions.
Prior Action #6	• *World Bank's Procuring Infrastructure PPPs 2018* lays out the good practices in PPP. • *Strengthening Infrastructure Governance for Investment and Service Delivery in Panama. World Bank, 2020* assesses the PPP law and outlines the next steps to support PPPs.
Pillar C – Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery	

Prior Action #7	• The document that laid the foundations for the preparation of the Family Farming Law, and that was produced involving the participation of representatives from the country's provinces and the Indigenous communities is the following: *Conceptualization, Characterization, and Registration of Family Farming - The Panama Experience, FAO, 2017.*
Prior Action #8	• Direct and permanent engagement between the government and Indigenous Authorities can increase IPs' recognition and participation in decision-making processes. *Indigenous Latin America in the Twenty-First Century. The World Bank. 2015.* • Institutional strengthening of Indigenous Peoples policies can contribute to enhanced opportunities and living conditions in Indigenous Territories. *Supporting National Indigenous Peoples Development Project (P157575). The World Bank. 2018.* • Impact of COVID-19 in IPs and key areas for short and medium-term interventions. *Upstream Social Assessment and Consultation on the Impacts and Priorities of Indigenous Peoples in Panama in relation to COVID-19. The World Bank and COONAPIP, 2020.*
Prior Action #9	• Through the programmatic technical assistance "*Supporting a sound energy transition in Central America (P169052)*", the WB has developed different initiatives to support the energy transition and decarbonization of the economy, like the assistance to develop a regulation for ancillary services, key for the smooth integration of variable renewable energy in the power system in Panama. • The programmatic technical assistance "*Central America Energy Assessments (P155068)"* supported the operational procedures in the National Dispatch Center of Panama to improve the forecasting of renewable resource and management of variability produced by the increasing participation of renewable energy in the system.
Prior Action #10	• The WB is supporting the GoP in the definition and effective implementation of the SSINGEI through the activity "*Panama - Partnership for Market Readiness (P169829)*". Under this activity the WBG is also accompanying the GoP in designing the implementation of carbon markets and financial instruments to accelerate the decarbonization of the economy. • The technical assistance activity "*Promoting Energy Transition And Decarbonization Of The Energy Sector In Panama (P173047)*" will support the formulation of the Climate Action Enhancement Package sponsored by the NDC Partnership. • This guidebook aims to help regulators to better understand their options in designing a monitoring, reporting, and verification (MRV) system tailored to their specific needs and circumstances. *Partnership for Market Readiness. 2019. Designing Accreditation and Verification Systems : A Guide to Ensuring Credibility for Carbon Pricing Instruments. World Bank, Washington, DC. World*

	Bank; and Panama - Partnership for Market Readiness (P169829). • Countries need to manage all their implementation efforts under a coherent and functional MRV system linked to their GHG inventory. *PROFOR, Strengthening the implementation capacity of forest based NDC commitments in Central America through regional cooperation and technical dialogue.* • Vulnerability to climate change interplays with many other vulnerabilities, such as health risks. *Hallegatte, Stephane, Mook Bangalore, Laura Bonzanigo, Marianne Fay, Tamaro Kane, Ulf Narloch, Julie Rozenberg, David Treguer, and Adrien Vogt-Schilb. 2016. Shock Waves: Managing the Impacts of Climate Change on Poverty. Climate Change and Development Series. Washington, DC: World Bank.*

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

90. **The DPF series is aligned with the FY15-21 Country Partnership Framework (CPF) for Panama discussed by the World Bank's Board of Executive Directors on March 2, 2015 and the Performance and Learning Review (PLR) for the CPF FY2015-21.**[65] The DPF series is a core instrument to achieve the following objectives of the CPF: (i) Objective 3: Improve Budget Management Transparency and Capacity under Pillar 1 (Supporting Continued High Growth); (ii) Objective 4: Complement Social Assistance with Productive Inclusion under Pillar 2 (Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups); and (iii) Pillar 3: Bolstering Resilience and Sustainability. The DPF supports these objectives through its policy actions on improving transparency and increasing expenditure effectiveness, increasing competitiveness of renewable energy sources, including energy efficiency considerations into procurement processes, improving targeting of regular cash transfer programs, and policy actions for Indigenous Peoples, Afro-descendants and women.

91. **During the COVID-19 pandemic, the WBG's strategy for Panama has been adapted to support emergency health responses for households and on building the economy back better**. The first step consisted of restructuring its portfolio of six projects for a total commitment of US$346 million as of March 2020[66]: (i) closing an unsatisfactory water project (Burunga Wastewater Management Project - P154275, US$65 million); (ii) accelerating the implementation of projects focused on improving access to health and water and sanitation services to Indigenous populations to mitigate the health impacts of the pandemic in vulnerable populations; (iii) restructuring a Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) - P122738, US$66 million, allowing a fast disbursement of US$41 million to address immediate health related financing needs; and (iv) repurposing an existing social protection project (Strengthening Social Protection and Inclusion System - P155097, US$60 million) to finance CCT transfers to address the economic and social emergency by protecting the poor. A health emergency operation (Panama COVID-19 Emergency Response - P173881, US$20 million) was approved in June 2020 to further support the immediate health response by supporting the procurement of much needed medical equipment and supplies.

92. **Looking into building forward better**, **the Bank will support the GoP in its efforts to protect human capital during the COVID-19 crisis and build a more inclusive and sustainable economy through the proposed**

[65] CPF Report No. 93425-PA and PLR Report No. 123665-PA.
[66] Since then, two projects have closed, one of which was the Burunga Wastewater Management Project (P154275), and the portfolio currently has four projects with a net commitment amount of $226 million.

programmatic DPF series. In addition, the Bank's efforts will continue, focused on: (i) protecting the poor and vulnerable by supporting investments in immediate health needs, strengthening the public health system and broadening social assistance and the jobs agenda to improve skills and foster inclusion; (ii) strengthening policies, institutions and investments for rebuilding better by enhancing infrastructure programs and mobilizing private sector through guarantees and technical assistance under its recently approved PPP law, enhancing water resource management, supporting sustainable transport and energy programs, and improving the country's disaster risk management agenda. Likewise, IFC is working towards helping the banking sector build capital buffers and is also working on extending a guarantee to the Panama Canal for US$500 million. MIGA is mobilizing approximately US$1 billion to the state-owned banks *Banco Nacional de Panama* and *Caja de Ahorros* to onlend to domestic banks in response to liquidity constraints and to provide financing to Medium- Small- and Micro-Enterprises. Annex 6 provides more details of how the WBG strategy has been adjusted to address the COVID-19 crisis.

93. **This operation is aligned with the World Bank Group COVID-19 Crisis Response Approach Paper.** It supports the second and the fourth pillars of the Approach Paper and represents an opportunity to rebuild better the country. During the relief stage, it supports prior actions on social protection and education, with a focus on protecting the poor and vulnerable. During the recovery phase, it supports reforms to address long-term development challenges with a strong focus on vulnerable rural and Indigenous populations and the environment, both to rebuild a better and more inclusive economy. Moreover, the operation supports strengthening institutions to combat anti-money laundering, fiscal management, infrastructure (PPPs), and to contribute to global and regional public goods. It applies the following selectivity principles: (i) fighting poverty and promote shared prosperity, (ii) sustainability, (iii) inclusion; and (iv) transparency.

94. **This operation is consistent with IBRD's policies for countries above the GDI.** The DPF series is a core instrument to achieve policy objectives for countries above the GDI such as: (i) the cross-cutting objective of strengthening institutional capacity and governance, (ii) addressing the causes of the countries regional and ethnic inequalities and poor social outcomes, and (iii) supporting the implementation of the global public goods agenda on climate change, international tax cooperation and AML/CFT. This proposed DPF series tackles critical challenges, such as large regional, ethnic, urban/rural inequalities that were already prevalent but have widened as a result of the COVID-19 pandemic, as well as institutional shortcomings – including related to global public goods such as anti-money laundering – that limit government capacity to address these challenges.

95. **This DPF series also builds upon the reforms supported by the previous DPF series (Programmatic Shared Prosperity DPF - P166159).** For example, the previous series supported the legal framework for AML/CFT, while the proposed series is supporting the enforcement of these rules. The DPF series supports and complements ongoing WB operations and analytical work. The Panama COVID-19 Emergency Response (P173881) is complementing this DPF by supporting the country in disease containment, the first policy priority outlined in the WBG COVID-19 Crisis Response Approach Paper. The ongoing analytical work Promoting Energy Transition and Decarbonization of the Energy Sector in Panama (P173047) has allowed the Bank to establish a dialogue with the GoP and help design the energy policies supported in this DPF. The Bank's continuous technical Support for AML/CFT Activities in Panama (P171703) and tax issues complements the DPF in these areas, while the IPFs, Support to the National Indigenous Peoples Development Plan (P157575) and the Strengthening Social Protection and Inclusion Systems (P155097), support Prior Actions 3 and 8.

96. **Finally, this DPF series is part of a joint effort by IFIs that includes parallel financing from the Central American Bank for Economic Integration (BCIE) for US$250 million (prepared together with the World Bank);** an IMF Rapid Financing Instrument (US$515 million) approved in April 2020; two operations for a total of US$400 million from the Development Bank of Latin America (CAF); and an IDB budget-support operation (US$350 million).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

97. **This DPF series is part of a package of coordinated financial assistance from development partners, in response to the COVID-19 outbreak.** The assistance of development partners to address the fiscal and social challenges created by the pandemic has been actively sought by the GoP, including the IDB, the IMF, and the United Nations agencies. A first effort consisted in rationalizing the existing portfolio and redirecting some resources under the ongoing projects towards the sanitary emergency. The GoP then worked with multilaterals to seek new support to finance the sanitary emergency and its economic and social impacts. Lastly, many of the policy actions supported through this operation have been consulted and closely coordinated with the development partners. The social protection policy actions build on previous analytical work conducted jointly with the IDB on the recertification of beneficiaries of existing social protection programs administered by MIDES. The health policy actions have been consulted extensively with PAHO. The education policy actions build on existing financial and technical assistance provided to MEDUCA by the United Nations Children's Fund (UNICEF) (emergency curriculum prioritization). The policy actions related to the Family Farming Law have been consulted with the Food and Agriculture Organization of the Unoited Nations (FAO). The AML/CFT policy actions have been consulted and discussed extensively with BCIE, IDB, IMF, and Organization of American States (OEA). The PPP and energy policy actions have been consulted with BCIE.

98. **The design of the development strategies financed under the proposed DPF was informed by consultations with various sectors of the Panamanian society.** The measures supported by the operation are aligned with the GoP's strategic plan for 2019-2024 "*Unidos lo Hacemos*" and the GoP's COVID-19 response initiatives. Selected policy actions have been subject to consultations with different government agencies, the public sector, and civil society. During project preparation, policy actions to be supported by this operation were discussed with government agencies to ensure they addressed the country's development priorities and challenges, particularly those resulting from COVID-19 pandemic, such as expanding inclusion and opportunities, and improving service delivery. Prior actions and triggers impacting vulnerable groups, including those to strengthen Indigenous Peoples' development followed the national deliberative and consultation processes. The policy action related to collective land titling has been consulted with COONAPIP and counts with their support. Discussions of the legal framework for the development of Indigenous Peoples is being coordinated with all relevant stakeholders including the Indigenous Peoples Council, MINGOB, MEF and the Indigenous Peoples Commission in the National Congress. For instance, during the Second Ordinary Session of the National Indigenous Peoples Development Council held on August 9, 2020, the Council agreed with the need to revise the original bill on Indigenous Peoples consultation in policy-making (Bill 316) and the importance to present it to the General Congress through Resolution No. 11 from 2020. The Council has also approved a national commission, through Resolution No. 12 from 2020, to update National Plan for the Development of Indigenous Peoples through a consultations process with Indigenous Peoples leaders and community members to include action areas related to COVID-19 impacts. Further engagement with the IP Council for policy actions that directly affect Indigenous Peoples has been recommended to the GoP. Support for the policy actions to expand social protection programs have also been discussed with the Ministry of Social Development and current social assistance program beneficiaries in the context of the existing Bank-financed project. Continuous stakeholder engagement to correct exclusion and inclusion errors have been recommended to improve the efficiency of the programs. To address key infrastructure gaps, the GoP recently approved the PPP law in congress, which benefited from a public consultation process facilitated by congress, as mandated by the Constitution, and with the participation of the private sector and civil society. Given the rapid-changing context resulting from COVID-19, the GoP will continue to consult stakeholders periodically and inform the public on reforms and measures related to policy actions supported by this operation and to mitigate the impacts of the pandemic.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

99. **The DPF supports several actions that are expected to have positive and direct effects on poverty reduction and income distribution both in the short and longer terms.** It is estimated that this DPF supports interventions that reduce monthly headcount poverty by 6.7 and 8.0 percent points (pp) or between 287,000 and 339,000 individuals, thus reversing a large proportion of the unprecedented increase in poverty attributable to COVID-19. Larger poverty reductions are estimated in rural areas. The prior actions supporting *Vale Digital* and the narrowing of rural income gaps, are expected to have the largest effects on poverty and inequality reduction while prior actions aiming to reduce distant learning, access to healthcare, and strengthening Indigenous Peoples' development will also contribute to reducing current and future inequalities.

100. **Policies in Pillar A have the potential to mitigate the poverty effect brought by the pandemic and to prevent further inequalities by targeting investments in human capital.** Prior Action 1 supports interventions that have the potential to benefit the health conditions of the poor in Panama. Currently, 88 percent of the poor in Panama (more than 450,000 individuals) report lack of access to public health insurance. A successful Prior Action #1 would contribute to narrow gaps in health access by decreasing out-of-pocket expenses associated with medicines. Currently, coverage gaps put Indigenous and rural people in a very disadvantaged position: Indigenous Peoples lag non-Indigenous Peoples in access to health insurance by 27 percent points; rural residents by 30 percent points vis-à-vis urban residents.

101. **Prior Action #2 supports strategies benefiting vulnerable students who are at risk of falling behind through multiple approaches.** First, it is estimated that about 261,250 of school aged children in Panama do not have access to internet in their homes (which represent 1 out of 4 children). Of those, 48 percent are girls, 47 percent are Indigenous, and 77 percent live in rural areas. Some 73 percent belong to the bottom 40 percent of the population. Thus, a purely internet-based approach to distance learning would be limited. But the prior action considers material accessible through booklets, radio, and television as well. Moreover, the content of the curriculum of this distance learning approach has been adapted and topics have been prioritized.

102. **Prior Action #3 supports the creation and rapid expansion of the temporary economic support program, *Plan Panama Solidário*.** The program is estimated to have a substantive impact in the reduction of additional poverty directly attributed to COVID-19. Given the scope of the program and the large benefit per beneficiary, the transfer has the potential to absorb between 50 to 100 percent of the total increase in poverty attributed to COVID-19 if implemented widely. The extent of the impact depends on the assumptions about the length of the COVID-19 lockdown and the actual income loss among workers affected by the economic effects of the pandemic. Poverty and distributional impacts come at a cost in excess of US$100 million per month. Although the program is expected to absorb a significant percentage of the total increase in poverty attributed to COVID-19, identified access barriers could threaten the program's effectiveness among the most vulnerable groups. Through the Bank's due diligence and as a result of the Upstream Social Assessment on the impacts and priorities of Indigenous Peoples in Panama in relation to COVID-19, barriers to access to the *Vale Digital* (cash transfer through ID cards) such as the lack of an identification card or the limited or lack of access to registered food suppliers have been identified. These barriers hinder the effectiveness of the *Vale Digital*, particularly in rural and Indigenous territories. To mitigate these risks, the GoP has introduced a program for the distribution of food baskets among poor households living in areas where digital cash transfers of *Vale Digital* are not feasible. Thus, even under the assumption that the cash-transfer reaches

one member per household in rural areas—as opposed to all eligible members in the household—, the program would still absorb an important proportion of the increase in poverty due to the economic crisis. Under this scenario, the program is estimated to yield a reduction equivalent to 70 percent of its poverty reduction potential.

103. **The prior actions in Pillar B are not expected to have negative effects neither on poverty nor on income distribution.** However, they can bring positive welfare effects in the future if they strengthen institutions and raise fiscal revenues that are used for poverty reduction and shared prosperity. The benefits in terms of poverty and distribution from Pillar B are indirect and will depend on the following: reduction of tax evasion and discouragement of informality (Prior Action #4); production of fiscal savings from improvements in procurement transparency (Prior Action #5); and reduction of infrastructure gap, especially in the most deprived areas through the use of PPP (Prior Action #6).

104. **Prior Actions #7 to #10 in Pillar C have the potential to reduce the rural-urban income gap resulting in a more inclusive society while making progress towards a more environmentally sustainable recovery.** Prior action #7 aims to reduce rural poverty and urban and rural income gaps by approving the Family Farming Law. If effective, this prior action would substantively benefit over 299,000 poor farmers in the rural areas of Panama. Closing income gaps—those between poor and nonpoor rural individuals--would require a monetized equivalent of US$490 per person per month in a rural poor farming household, or about US$146 million per month. Every 30,000 beneficiaries of a strategy capable of closing those income gaps for poor farmers would reduce rural poverty by 2.75 percentage points. Prior Action #8, securing collective land titles for Indigenous Peoples, plays a critical role in food security for Indigenous Peoples communities, preserving Indigenous culture and traditional knowledge, and decreasing conflicts by securing land tenure from potential invasions from *colonos*. Securing land titles under collective land can also facilitate access to government funding and project financing to sustainably manage these lands. In addition, several recent studies in Latin America have found a compelling causal relationship between titling and decreased deforestation.[67] Priors Actions #9 and #10 aim to make progress towards a more sustainable recovery. Prior Action #9 modified the regulation to facilitate the participation of renewable energy the country makes progress towards a decarbonization strategy. If the participation generates a competitive electricity supply, only positive effects can be expected on final consumers. Finally, Prior Action #10 starts to set the grounds for definitions of carbon offsets and a carbon market. If this translates to concrete action to fight climate change and the sustainable management of forests and natural resources, households in vulnerable economic conditions would positively benefit as they lack the mechanisms to cope with climate-change related wheatear shocks and food and water scarcity.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

105. The measures supported under the proposed DPF are not expected to have significant effects on the environment, forests or other natural resources. Prior Actions #1 through #3 under Pillar A aim to protect human capital during the COVID-19 crisis and strengthen institutions to foster human capital accumulation during the recovery. Under Prior Action #1 and the approval of the National Pharmaceutical Policy Law, there is potential for the generation of increased pharmaceutical waste, although any potential negative risks associated with this can be easily mitigated through the strong medical waste framework in force in Panama. Medical waste management is directed by Executive Decree No. 111 of June 23, 1999, which establishes the regulations for the management and handling of solid waste from health facilities as well as pharmaceutical waste, and Panama has adequate institutional

[67] Liscow (2013); Buntaine, Hamilton and Millones (2015); Blackman et al. (2017); and Blackman and Viet (2018). In Colombia, Velez et al (2020) find that collective titling for Afro-descendant populations has decreased deforestation in the Pacific Region by more than one percentage point, or about a 27 percent reduction from projected deforestation rates without titling.

capacity and enforcement powers to apply these waste mitigation measures nationally. As such, any impacts arising from governmental support to the population under Pillar A are likely to be environmentally neutral or have minimal negative effects. Pillar B focuses support on strengthening institutions to support a more transparent and fiscally sustainable economic recovery. Prior Action #4 deals with tax evasion and is unlikely to have significant effects on the environment or natural resources. Prior Action #5 focuses on improved transparency and accountability in public procurement, incorporating good international practice that includes environmental and social due diligence guidelines into feasibility studies and procurement contracts, and is likely to result in positive environmental outcomes, primarily by incentivizing environmental and energy efficiency in procurement, processes.

106. Pillar C aims to strengthen institutions to support a more inclusive and environmentally sustainable economic recovery including through landmark legislation for the promotion of Indigenous community rights. Prior Actions #7 through #10 have the potential to impact Panama's environment, forests or other natural resources in a positive manner, even if some potential negative effects may be foreseeable. Nonetheless, for reasons outlined below, there are numerous legislative safeguards and robust institutional capacity in place to ensure that any potential negative effect will be minimized, and that all prior actions are instead likely to result in positive effects on the environment, forests, and natural resources. The approval of the Family Farming Law, the focus of Prior Action #7, aims to increase small-holder agricultural productivity but has the potential, if improperly managed, to result in agricultural encroachment into forested areas abutting existing family farms. To manage and mitigate the potential for any encroachment, the Law explicitly manages the tradeoffs in promoting rural poverty reduction through agriculture and supporting family farmer livelihoods with potential environmental harm, and sets out that the conservation of biodiversity and natural resources is an integral facet of family farming (Law 127, article 7). As such, internationally recognized good practice principles of sustainability and conservation are central tenets of the Law. In addition, the existing national regulatory provisions under the General Law of Environment (GLE) and the Forestry Law (1994) provide guarantees to prevent forest encroachment and illegal deforestation, as well as assuring resource efficiency through water use regulation for agricultural practices. Overall, the government has undertaken major efforts to establish institutional and organizational compliance frameworks for environmental management and has in place legal provisions that provide a sound basis for regulating resource conservation, along with institutional capacity to monitor and enforce compliance. Prior Action #7 builds on the foundations of Law 628 (2019), setting out the national policy framework on sustainable farming and rural development covering family farmers, commercial producers and agro-industrial firms. The Law mandates measures based on good international practice, including resource efficiency, extension services in rural zones, technology transfer and adoption, access to finance, and female participation in decision-making, particularly in rural areas. Prior Action #8 establishes regulations to recognize and expedite issuance of collective land titles to Indigenous Peoples on national protected forests to improve security of tenure and reduce pressures on natural resources. The Law specifically references the binding nature of international treaties, the national ecological framework as set out in the Constitution, as the right to collective property of Indigenous communities, protected areas and State Forest Heritage lands and their compatibility with indigenous collective property, and the exercise of environmental administrative jurisdictional functions. Enhanced tenure should allow for greater stewardship of protected areas by Indigenous Peoples, many of whom rely on the resources for livelihoods and subsistence, giving them greater control in managing the areas for conservation, as supported through the National System of Protected Areas (SINAP), which itself was created to implement Panama's National Biodiversity Policy. As a result of enhanced titling and stewardship, Prior Action #8 is expected to result in positive environmental effects. Prior Action #9, in turn, seeks to facilitate the participation of renewable energy in national power procurement by allowing flexible energy supply bids in the tendering process, which, similarly to Prior Action #5 under Pillar B, is likely to have positive environmental effects by incentivizing the integration of clean energy sources in the national grid. Lastly, Prior Action #10 – creating the SSINGEI and the National Emissions Registry – is likely to enhance the environmental integrity of Panama's contribution to the global climate agenda through the creation of inventories as a necessary enabling condition for a national carbon market. This is likely to result in overall positive environmental benefits in the long-run by incentivizing a greener and less carbon-intensive energy sector.

107. In terms of the national institutional framework to manage any potential negative impacts on the environment, forests or natural resources, Panama has created a legal framework for addressing environmental and social issues. The maintenance of "ecological equilibrium" and the avoidance of "ecosystem destruction" are enshrined in the 2004 national constitution (art. 119) along with the "preservation, renewal and permanence" of terrestrial, riverine and marine natural resources (art. 120). This constitutional grounding arose from prior the legislative and institutional developments, notably the 1998 General Environmental Law (GLE), which serves as the cornerstone of the country's environmental management framework. It was enacted after thorough consultation with both the private sector and nongovernmental organizations (NGOs), among other key stakeholders. The law provides general policy guidelines for both public and private institutions and sets out the role of the National Environmental Authority (*Autoridad Nacional de Ambiente*, ANAM), the Inter-institutional Environmental System (*Sistema Interinstitucional de Ambiente*, SIA), and other government entities and coordinating bodies.

108. Effective environmental protection has increased as a national priority over the last two decades. Environmental governance was again strengthened in 2015 with the creation of the Ministry of Environment (*Ministerio de Ambiente*, MiAmbiente), elevating environmental protection to ministerial level. Many of MiAmbiente's regulatory and enforcement powers emanate from the GLE, which still serves as an overall framework for regulating and managing environmental issues, including those related to pollution control and conservation. It articulates a set of ambitious principles of environmental policy, including the obligation of the state to provide a healthy environment and the principle of incorporating environmental considerations in government decision making. Through the GLE, MiAmbiente touches on practically all the key elements recognized internationally as good environmental policy approaches, including environmental assessment, enforcement and compliance as well as mainstreaming environmental policies and ensuring public participation and environmental education in decision-making. In 2019, MiAmbiente strengthened its environmental assessment and monitoring functions through the roll-out of online tools to centralize all assessment processes and increase transparency and public participation in environmental decision-making. The elevation to ministerial level and resulting budgetary provision reduced some previous human and financial resource challenges that historically impeded full application and enforcement of national environment regulation, including the GLE. MiAmbiente has leveraged the strong foundations laid by ANAM to make environmental coordination and compliance more influential and effective in national policy-making. The ministry ensures robust environmental governance and has the capacity to manage potential negative effects that any PAs supported under the DPF may generate.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

109. The overall integrated fiduciary risk of this operation arising from Panama's public financial management (PFM) and public procurement system is moderate. With respect to the PFM System, the last available analytical report is the Public Expenditure and Financial Accountability Assessment (PEFA) completed in 2013[68] . Based on the conclusions of the PEFA Report it is confirmed that budget resources management by Panama Central Government PFM system in place and its commitment to PFM reform are reliable to support this operation. The budget is published promptly after its approval in the Official Gazette and the published budget, together with budget execution reports are publicly available online. Panama's PFM systems are characterized by: (i) a timely review and

[68] The PEFA report was conducted jointly by the WB and the IDB and published in July 2013.

approval of the national budget by the National Assembly; (ii) good and timely public debt management and reporting; and (iii) readily accessible information on government expenditure to the public. However, the on-going PFM dialogue has identified several areas that would benefit from improvement: (i) budget credibility and predictability, which is affected by significant and numerous budget modifications throughout the year; (ii) predictability of the availability of funds for commitment of expenditures is uneven; (iii) a mechanism for the proper control of payment arrears should be put in place; (iv) better quality and comprehensiveness of budgetary and financial reporting is needed; (v) annual consolidated financial statements of the central government have not been available for the past seven years; and (vi) a strengthened internal and external audit functions and internal control framework is required.

110. The WB has been supporting the GoP in the improvement of PFM through the previous DPF series, as well as the Enhanced Public Sector Efficiency Technical Assistance Loan. Notably, the GoP is in the final stages of fully introducing a new Integrated Financial Management System (ISTMO), which aims at providing a modern platform that integrates accounting, budgetary, and treasury functionalities in the public sector. However, some accounts still need to be reconciled as a result of the transition to ISTMO, and as result, the GoP is still unable to produce consolidated financial statements for the public sector. This problem, as well as the others listed above, need to be addressed for Panama to improve the quality of its financial reporting, thereby enhancing transparency and accountability of the use of public funds. In addition, other areas of opportunity could be the implementation of a new asset management framework and the implementation of International Standards of Supreme Audit Institutions. Challenges also remain in addressing the underlying causes of corruption. Panama's ranking in the Transparency International Corruption Perception Index is 101 out of 198 countries with an overall score of 36/100, with only minimal changes over the last five years.

111. Procurement processes in Panama are largely competitive and transparent and have been improving overtime. The GoP spent US$15.3 billion in the procurement of goods, works, and services from 2014 to 2018, 62 percent of which was spent on the health sector (medication and public works). All these transactions were implemented using the *PanamaCompra* system, advertising the procurement opportunities and contract award through such system and being accessible to anyone interested in viewing these. During this period, the procurement through bidding by best value increased up to 45 percent of the awarded amount, and the process of quote requests registered the greatest volume of processes with a 65 percent of the total. Additionally, 5 percent of the awarded amount was through framework agreements, which represented almost 25 percent of all transactions. The country has been improving its procurement processes by approving a new law, launching a new version of the system, and conducting analysis of procurement outcomes. The new procurement law enhances policies and procedures, with a focus to overcome very common obstacles in their public procurement processes. The new version of the system *PanamaCompra 3* considers lessons learned from its predecessor and incorporates the changes from the new procurement law. Additionally, the National Procurement Entity has conducted several market research activities, in order to obtain updated and valuable information for the establishment of new procurement frameworks and/or the improvements of those already in place. It is expected that the new *PanamaCompra 3* system will be rolled out to all the Central Government agencies by January 2021. Despite all this progress, there is still room for improvement in terms of practices to address inefficiencies in the system, which could lead to important savings that have been estimated between 16 and 22 percent of the annual amount awarded through public contracts (US$2.5 to 3.4 billion). The country also has an agenda to improve integrity on procurement processes as several problems arose with the pandemic related procurement.

112. **The Bank will disburse the loan proceeds into the US dollars Treasury Single Account (TSA) of the MEF once the loan is approved and becomes effective.** Upon its deposit, DPF disbursement will become available to finance

budgeted expenditures. The account is denominated in US dollars, which is legal tender in the country, and is held at the *Banco Nacional de Panama* (BNP), a state-owned bank and the government's financial agent (as Panama has no Central Bank). The Bank has reviewed the two most recent audited financial statements (CY 2018-19) of the BNP publicly available through BNP's website, which are prepared based on International Financial Reporting Standards (IFRS) and annually audited by external auditors under International Standards on Auditing (ISA). Based on the audit reports with clean opinions and the satisfactory track record in the operation of special (designated) accounts in IBRD-financed operations held in the BNP in the past, it was concluded that the Bank has reasonable assurance that the banking control environment into which the loan proceeds will flow is satisfactory. On this basis, no audit will be required for the deposit account, and no additional fiduciary arrangements are considered necessary at this time. The Borrower shall, within 30 days after the withdrawal of the DPF proceeds report to the Bank: (a) the exact sum received into the account; (b) the details of the account to which the local currency equivalent of the Loan proceeds was credited; and (c) confirm that an equivalent amount has been accounted for in the Borrower's budget management systems. The financial support provided under this operation is not intended to finance goods or services on the list of Excluded Expenditures.[69] If any portion of the loan is used to finance ineligible expenditures as set forth in the General Conditions which are part of the Loan Agreement, the Bank shall require the Borrower to refund the amount and such payments made for excluded expenditures would be cancelled.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

113. **MEF will be the main responsible agency for the monitoring, evaluation, and results framework and will coordinate actions across relevant ministries and agencies involved in the operation.** The agencies responsible for the implementation of the prior actions and triggers supported by the DPF series include the following: (i) Pillar A: Ministry of Health (MINSA), Institute of Research on Health (*Instituto Commemorativo GORGAS – COVID19 Monitoring*) Ministry of Education (MEDUCA), and Ministry of Social Development (MIDES), Ministry of the Presidency, and National Authority for Governmental Innovations (AIG); (ii) Pillar B: National Secretariat for Public-Private Partnerships (SNAPP), Banking Superintendence, and MEF – through the *Dirección General de Ingresos, Dirección Nacional de Contabilidad* and DGCP; and (iii) Pillar C: Ministry of Agricultural Development (MIDA), Vice-Ministry of Indigenous Affairs, Secretariat of Energy, and Ministry of Environment (MIAMBIENTE). The World Bank will be monitoring the implementation of the DPF program through regular supervision missions, including virtual missions. The World Bank will maintain close dialogue with counterparts throughout preparation and collaborate with MEF for the monitoring of indicators.

114. **While data availability in Panama lags its structural peers, the administrative data needed to monitor the operation can be accessed.** The registry, maintenance, and availability of data in Panama is below the practices of countries with similar level of income. National statistics and administrative data are released with longer lags and less coverage than its peers. Nonetheless, the quality of the data available doesn't seem to compromise the information. The operation will be monitored by administrative data maintained by the government agencies involved in the operation. In the cases where multiple government might be involved in the implementation of the policy action such as the trigger related to community land titles for IPs, the Ministry of Finance, as the government agency responsible for the implementation of the operation, will coordinate with other government agencies and non-governmental actors, including the Ministry of Governance, as well as the National Congress and representatives of Indigenous Peoples to monitor the preparation and strengthening of the indicative trigger. In this case, data to

[69] See the *General Conditions for DPF*: "Excluded Expenditure" for DPF covers items such as alcoholic beverages; tobacco; radioactive and associated materials; nuclear reactors and parts thereof; jewelry of gold, silver, or platinum; goods intended for a military or paramilitary purpose or for luxury consumption; or expenditures for environmentally hazardous goods.

measure expected results will come from sources such as resolutions passed in the National Council for the Development of Indigenous Peoples in support of government projects that are in line with the Indigenous Peoples National Development Plan or from registered projects in MEF's National System for Public Investments (SNIP) once necessary adaptations are made in the system. While these data might not have been retrieved and used customarily by these agencies, they have not faced troubles in retrieving and providing this information to the Bank during the preparation of the operation.

115. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank DPO may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

116. The overall risk of the operation is rated substantial. This rating is due to substantial risks in institutional capacity, macroeconomic, and stakeholder risk categories. These risks will be mitigated by cooperation with the development partners, technical assistance to the GoP on the main policy areas of the operation, strong joint dialogue with the IMF on macroeconomic policy that can lead to a new program, and a combination of public outreach and political economy analysis to mitigate the stakeholder risk.

117. **Institutional capacity is rated substantial.** Institutional capacity risk is substantial due to low technical capacity in government agencies to implement reforms, as seen by the current standing (51.9) and declining trajectory of Panama in the government effectiveness percentile in the worldwide governance indicators. There is also a challenge with coordination where multiple government agencies might be involved in the implementation of the policy actions These risks are mitigated by engaging in sectors in which the Bank has had consistent dialogue and analysis as well as with the provision of technical assistance. In cases where coordination may pose a risk, the Ministry of Finance, as the government agency responsible for the implementation of the operation, will coordinate with other government agencies and non-governmental actors, as well as stakeholders to monitor the preparation and implementation of the reforms.

118. **Stakeholder risk is rated substantial**. The Stakeholder risk is substantial as some of the reforms supported, such as strengthening of AML/CFT controls, could trigger opposition from powerful interest groups opposing these reforms. An additional risk stems from the limited resources that may be available for consensus building to ensure the approval and implementation of the law to adopt the National Development Plan for Indigenous Peoples, which may trigger protests from Indigenous Peoples. These risks are being mitigated through a combination of public outreach and political economy analysis and gradual implementation of key measures, particularly in the transparency agenda, and engagement and consultations on themes such as Indigenous Peoples, environment, and procurement. Effective community participation is being done by the participation of a national Indigenous

organization (*Coordinadora Nacional de Pueblos Indígenas de Panama,* COONAPIP), ensuring redress mechanisms are in place. The GoP is ensuring consensus in the Executive and Legislative branches, as well as with civil society and particularly the National Council for Indigenous Peoples Development.

119. **Macroeconomic risk is rated substantial given the high uncertainty that the COVID-19 pandemic still poses to the outlook.** The COVID-19 pandemic, and particularly the high infection rate in Panama, makes forecasting inherently more uncertain. The difficulty to bring down the number of COVID-19 cases and the uncertainty surrounding a vaccine discovery, its efficacy and availability can lead Panama to a downside scenario as mentioned earlier, which will deepen the recession and fiscal problems. This risk is more acute for Panama due to its reliance on trade and other growth drivers' activities that cannot fully be carried out in a socially distant way. This risk is being mitigated in the following ways: (i) on the health front, the WBG is supporting the country in its health response, including in its immunization strategy; (ii) on the macroeconomic front, the Bank is engaged in a dialogue with the authorities together with the IMF to advance structural growth-enhancing reforms that can lead to a new IMF program, which would be more likely in the downside scenario; and (iii) on the financing side, the risk is mitigated by the country's access to private financing as well as financing from multilateral institutions. In fact, the additional financing needs in the downside scenario are estimated to be US$6 billion from 2020 to 2025, which is in line with the country's capacity to access these sources especially when accompanied by an IMF program.

120. **All other risks are rated moderate.** Political and governance risk is rated as moderate because the program is well aligned with the government priorities and although Panama has challenges with transparency and fighting corruption, its ranking in voice and accountability has been increasing. Sectorial and technical design risks are rated moderate because the policies supported are aligned with the government priority and rely on Bank's dialogue and analysis. Fiduciary risk is considered moderate considering the PFM systems performance, including procurement, despite the existence of areas for improvement, and banking arrangements control environment. Environmental risks are also assessed as moderate as actions supported under the DPF are likely to result in positive environmental effects in the long run. Any potential negative effects foreseeable can be adequately managed by the robust environmental impact assessment and enforcement regime enacted under Panama's constitutional and legal framework and the powers and capacities embedded in the Ministry of Environment.

Table 5 - Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate

7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers		Results		
Prior Actions under DPF 1	**Triggers for DPF 2**	**Indicator Name**	**Baseline**	**Target**
Pillar A – Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery				
Prior Action #1. The Borrower has enacted legislation and taken measures to facilitate the reduction of out-of-pocket expenses for the users of the public health system by improving access to high-quality generic medicines. **Legal Evidence**: Law No. 109 dated November 12, 2019 and published in the Borrower's Official Gazette on November 12, 2019; Law No. 97 dated October 4, 2019 and published in the Borrower's Official Gazette on October 4, 2019; and Executive Decree No. 36 dated January 17, 2020 and published in the Borrower's Official Gazette on January 17, 2020.	**(Indicative) Trigger #1**: The Borrower has adopted mandatory guidelines to be followed by public health facilities for the distribution, prioritization, and financing of the COVID-19 vaccines to safeguard the health of high-risk groups.	**Results Indicator #1:** Health regions (*regiones de salud*) with verified institutional capacity in MINSAs' facilities to provide access to prescribed medicines for all users; and to distribute and prioritize COVID-19 vaccines to safeguard the health of the high-risk groups conditional on the COVID-19 vaccine being available in the international market (number).[70]	Baseline: For prescribed medicines, percent of population reporting access to all prescribed medicines by health region (2019).[71] For COVID-19 vaccines, 0 (out of 16) health regions nationwide (2020).	Target: For prescribed medicines, at least 12 (out of 16) health regions nationwide have improved (2022). For COVID-19 vaccines: 16 (out of 16) health regions nationwide (2022).

[70] The measurement instrument for access to prescribed medicines by in MINSA's facilities is the User Satisfaction Survey. This is a nationally representative survey conducted annually by the MINSA's Monitoring and Evaluation Department, Health Services Provision Division. The sampling design for this survey allows to estimate reliable statistics by health region. The question that will be used to measure user's perceptions on prescribed medicines availability is the following: "Did you receive all the medicines that were prescribed for you?". The measurement instrument for the institutional capacity to distribute and prioritize COVID-19 vaccines will be administrative data by health region. Conditional on the COVID-19 vaccine being available in the international market is defined as having one or more vaccines for COVID-19 approved and in distribution by the COVAX mechanism.

[71] Bocas del Toro (63.0%); Chiriquí (57.0%); Coclé (66.0%); Darién (54.5%); Herrera (56.0%); Ngäbe Bugle (87.0%); Panamá Norte (73.7%); Panamá Oeste (82.0%); San Miguelito (72.3%); Veraguas (77.0%); Guna Yala (88.0%); Los santos (65.0%); Panamá Este (84.0%); Colon * (53.1%); Panamá metro (n.a.); and Distrito Arraiján (n.a.). Data for Panama metro and Distrito Arraiján health regions are not available as the two health regions were created after the 2018-2019 User Satisfaction Survey was administered.

Prior Actions and Triggers		Results		
Prior Action #2. The Borrower, through the Ministry of Education, has taken measures to mitigate learning losses including: (a) the issuance of a resolution approving a criterium for curricula prioritization for all subjects offered in pre-primary, primary, lower secondary, and secondary education for the school year 2020; and (b) the issuance of a resolution approving the temporary implementation of distance learning programs and setting forth the main requirements for said type of education. **Legal Evidence**: Ministry of Education Resolution No. 60 dated July 2, 2020 and published in the Borrower's Official Gazette on July 7, 2020 and Ministry of Education Resolution No. 1404-A dated March 27, 2020 and published in the Borrower's Official Gazette on June 8, 2020.	**(Indicative) Trigger #2.** The Borrower has approved the legal framework to integrate information and communication technologies to the education system to accelerate learning, particularly among the poor and most vulnerable.	**Results Indicator #2:** Students in public schools in *Plan Colmena* using at least one of the education technologies solutions provided by the government to support learning during school year 2022 (unique users, at least one access per month) (number).	Baseline: 0 (2019)	Target: 50,000[72] (2022)
Prior Action #3. The Borrower has adopted emergency measures to protect workers and poor and vulnerable persons during the pandemic by: (a) creating emergency digital food vouchers (*Vale Digital*) targeted mainly at urban poor and vulnerable	**(Indicative) Trigger #3**. The Borrower has adopted measures to transition from *Panama Solidario* to a temporary social protection program targeted at persons who are still in poverty or vulnerability.	**Results Indicator #3**: Proportion of population aged 18 or older covered by a temporary social protection program (percentage).	Baseline: 22 percent (2020)	Target: At least 10 percent (2022)[73]

[72] The estimated total number of students in public schools in *Plan Colmena* for school year 2020 is 351,834 distributed across: 219,009 (primary), 83,557 (lower secondary), 44,274 (secondary), and 4,994 (youth and adults). The targeted results indicator is at least 50,000 students, thus reaching approximately 14 percent of total students in the public system.

[73] The target results indicator is lower than the baseline as it is expected that when the economy begins to recover, some groups currently benefiting from *Panama Solidario* will no longer require assistance (e.g. suspended formal workers).

Prior Actions and Triggers		Results		
persons and suspended low-salary formal workers; and (b) creating mechanisms for the delivery of food baskets to poor and vulnerable persons in rural and Indigenous territories, where the distribution of digital food vouchers was not feasible to implement. **Legal Evidence**: Executive Decree No. 400 dated March 27, 2020 and published in the Borrower's Official Gazette on April 3, 2020; Inter-ministerial Resolution No. 1 dated May 26, 2020 and published in the Borrower's Official Gazette on June 2, 2020; Extract from the Minutes of the Inter-ministerial Commission of *Panama Solidario* No. 10 dated June 27, 2020 and Letter AIG-AG-LO-N-No.1181-2020, dated September 11, 2020.				
Pillar B - Strengthening institutions to support a more transparent and fiscally sustainable economic recovery				
Prior Action #4. The Borrower has taken actions to enhance the transparency of business operations in the Borrower's territory while at the same time strengthening its capacity to fight tax evasion and illicit flows by: (a) enacting a law establishing the regulatory framework for the creation of the system of registry of ultimate beneficial ownership (UBO) of legal persons to facilitate the improvement of the information basis for combating tax evasion and AML/CFT; (b) issuing a manual for risk-based supervision of designated	**(Indicative) Trigger #4.** The Borrower has further taken measures to enhance the transparency of business operations by: (a) introducing the necessary mechanisms to ensure that information entered in the UBO registry is verified on a risk-based approach, and timely updated as possible, and that sanctions for non-disclosure and/or delayed disclosure are dissuasive; (b) approving the first Action Plan for the supervision of DNFBPs utilizing the risk-based approach in the corresponding	**Results Indicator #4**: Legal persons included in the ultimate beneficial ownership (UBO) registry and risk-based verifications conducted (percentage).	Baseline: 0 (2019)	Target: 80 percent of legal persons registered, and 100 percent of high-risk persons inspected (2022)

Prior Actions and Triggers		Results		
non-financial businesses and professions (DNFBPs); and (c) issuing a regulation to specialize a unit within the Public Prosecutor's Office to prosecute tax crimes. **Legal Evidence:** Law No. 129 dated March 17, 2020 and published in the Borrower's Official Gazette on March 20, 2020; Letter MEF-2020-49684 dated October, 2020 attaching a copy of point No. 7 of the Minutes of the Board of Directors of the Superintendence of Non-Financial Subjects No. 01-2020 dated June 24, 2020 and of the Supervision Manual for DNFBPs with a Risk Focus; and Public Prosecutor's Office Resolution No. 8 dated June 4, 2020 and published in the Borrower's Official Gazette on June 26, 2020.	Supervision Manual and sectoral strategies; and (c) amending law 52/2016 to improve access in Panama to accounting records on offshore business operations and strengthen sanctions for non-compliance with exchange of information requests.			
Prior Action #5. The Borrower has taken steps to improve transparency and accountability by: (a) amending the public procurement law to: (i) facilitate an increase in competition; (ii) curb corruption; and (iii) promote sustainable procurement by mandating the establishment in the procurement processes for all public entities criteria on, *inter alia*, sustainability and energy efficiency; and (b) issuing a	**(Indicative) Trigger #5.** The Borrower has: (i) issued regulations supporting the roll out of a new, last-generation, electronic-procurement platform (*PanamaCompra 3*) to all central government agencies to improve efficiency, transparency and control; and (ii) made progress to generate reliable and consolidated financial statements for the central government	**Results Indicator #5:** Central government institutions using e-procurement system (*PanamaCompra 3)* (number).	Baseline: 0 (2019)	Target: 25 (2022)

Prior Actions and Triggers		Results		
resolution that establishes the steps, procedures and responsibilities necessary to ensure the generation of reliable and consolidated financial statements for the central government. **Legal Evidence**: Law No. 153 dated May 8, 2020 and published in the Borrower's Official Gazette on May 8, 2020, and Ministry of Finance Resolutions No.MEF-RES-2020-2189 and MEF-RES-2020-2192 both dated October 30, 2020 and published in the Borrower's Official Gazette on October 30, 2020.	by: (a) validating and reporting to ISTMO the accounting balances of bank accounts of all central government entities and the Treasury's General Account, (b) reporting in ISTMO all central government revenues, including tax and non-tax revenues, and (c) clearing all the accounting inconsistencies of Control Accounts 993 and 994 for all central government entities.	**Results Indicator #6:** Publication of consolidated financial statements (number).	Baseline: 0 (2019)	Target: At least 1 (2022)
Prior Action #6. The Borrower has enacted a law creating the PPP regime to regulate the institutional framework and the processes for the development of investment projects under the public-private modality including the creation of a National Secretariat for PPPs to facilitate a more efficient design, procurement, and maintenance of public infrastructure, the saving of fiscal resources, and an increase of private investment. **Legal Evidence**: Law No. 93 dated September 19, 2019 and published in the Borrower's Official Gazette on September 19, 2019.	**(Indicative) Trigger #6.** The Borrower has enacted: (a) a general regulation to operationalize the PPP law and staff the National Secretariat for PPPs; and (b) all PPP specific regulations relating to budgetary, public finance management, and fiscal risks to design, procure, and maintain public infrastructure more efficiently, save fiscal resources, and increase private investment.	**Results Indicator #7:** Private sector financing mobilized to fund infrastructure services under the PPP law (US$).	Baseline: 0 (2019)	Target: 500 million (2022)
Pillar C – Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery				
Prior Action #7. The Borrower has enacted a law for the development of family	**(Indicative) Trigger #7.** The Borrower, through the CONADAF and the Ministry of	**Results Indicator #8:** Family farmers benefiting from the	Baseline: 0 (2019)	Target: 5,000, of which 40

Prior Actions and Triggers		Results		
agriculture to promote the provision of financial and technical assistance to family farmers to improve the productivity of their agriculture activities and to increase their food and nutritional security. **Legal Evidence**: Law No. 127 dated March 3, 2020 and published in the Borrower's Official Gazette on March 4, 2020.	Agriculture, has established and funded the Family Farming National Fund to address barriers for family farmers, particularly women and Indigenous Peoples, to benefit from financial and technical support to improve the productivity of their agriculture land and to increase their food and nutritional security.	Family Farming National Fund (number and percentage).		percent are women-led households and 40 percent are Indigenous Peoples (2022)
Prior Action #8. The Borrower, through the Ministry of Environment, has issued a regulation establishing the legal basis to facilitate: (a) the recognition of collective land to Indigenous Peoples on national protected areas, (b) the improvement of security of tenure; and (c) the reduction of pressures on natural resources. **Legal Evidence**: Ministry of Environment Resolution DM-0612-2019 dated November 29, 2019 and published in the Borrower's Official Gazette on December 2, 2019.	**(Indicative) Trigger #8.** The Borrower has approved a legal framework establishing actions for the development of Indigenous Peoples in Panama through participatory processes, in line with international good practices.	**Results Indicator #9:** Total area of national protected areas under enhanced conservation and social inclusion regulation (hectare).	Baseline: 0 (2019)	Target: 1,000,000 (2022)
		Results Indicator #10: Programs registered in SINIP that have been designed in consultation with the IP Council (number)[74].	Baseline: 0 (2019)	Target: 5-10 (2022)
Prior Action #9. The Borrower, through Regulatory Authority for Public Services (ASEP), has modified the regulation on the procurement rules for the wholesale electricity market to facilitate the participation of renewable energy by	**(Indicative) Trigger #9.** The Borrower has reformed energy subsidies, by reducing and targeting fossil fuel subsidies and steering subsidies towards cleaner alternatives.	**Results Indicator #11:** Energy awarded to variable renewable sources in energy auctions	Baseline: 31.7 percent (2016)[76]	Target: 47 percent (2022)

[74] Only programs located in Indigenous territories are expected to be consulted with the IP council. Thus, the target must be assessed against the number of programs registered in SNIP that are located in Indigenous territories and not the total number of programs.
[76] Last energy auction prior Resolution AN-13242-Elec from April 4, 2019 was held in Panama in 2016.

Prior Actions and Triggers		Results		
introducing an alternative that eliminates barriers and provides flexibility in energy supply bids in the tendering process. **Legal Evidence**: ASEP's Resolution AN-13242-Elec dated April 4, 2019 and published in the Borrower's Official Gazette on April 11, 2019.		(percentage).[75]		
Prior Action #10. The Borrower has issued a decree establishing the Sustainable System of National Greenhouse Gases Inventories (SSINGEI) and creating the National Emissions and Mitigation Actions Registry. **Legal Evidence**: Paragraphs 1 and 2 of Article 6, and Titles III and IV of Executive Decree No. 100 dated October 20,2020 and published in the Borrower's Official Gazette on October 20, 2020	**(Indicative) Trigger #10.** The Borrower has released preliminary guidelines to gradually implement and operate the initial phase of the national GHG emissions trading system, and through the Secretariat of Energy, has approved the Energy Transition Agenda defining policy actions to achieve the Sustainable Development Goals and NDCs.	**Results Indicator #12:** GHG emissions regulated under economy-wide[77] policy instruments (percentage).	Baseline: 0 (2019)	Target: 100 percent (2022)

[75] To avoid distortions in the indicator resulting from power auctions –in which the system operator bids primarily power but could include some marginal energy purchases–, "Energy auction" is considered an auction in which the energy bided amounts to at least 10 percent of the annual energy demand of the country, which reached 8,413.29 GWh in 2019.

[77] Economy-wide related to climate change policies refers to GHG emissions communicated on a national level without being assigned to a specific economic sector or policy area. *Reduce tu Huella* is an instrument that covers the full range of Panama's climate ambition and all GHG gases.

ANNEX 2: FUND RELATIONS ANNEX

Panama—Assessment Letter for the World Bank

October 14, 2020

This letter updates the assessments contained in the 2020 Article IV Consultation staff report for Panama published on April 21, 2020 and the Request for Purchase under the Rapid Financing Instrument staff report published on May 1, 2020.

1. **Economic activity contracted sharply due to the global COVID-19 pandemic.** Panama experienced an unprecedented economic expansion with average annual growth of 6 percent in the last 25 years, the longest and fastest in Latin America, supported by an investment boom, which included the expansion of the Canal and the construction of one of the largest copper mines in the world. Growth slowed in 2018–19 and deteriorated significantly in 2020 as the COVID-19 shock adversely impacted trade, tourism and net re-exports from the free trade zone. IMF staff projections assume a partial reopening of the economy in 2020, with GDP contracting by 9 percent (y/y), inflation remaining negative, and the current account widening to 7 percent of GDP. The fiscal position has deteriorated amid rising containment costs and expanded social benefits combined with weak revenue performance. The 2020 nonfinancial public sector deficit is expected to widen to 9 percent of GDP.

2. **IMF's engagement with the authorities includes a recent disbursement.** Following the request by the Panamanian authorities, the IMF Executive Board approved an emergency Rapid Financing Instrument (RFI) facility equivalent to 100 percent of Panama's quota (SDR 376.8 million; about US$516 million) on April 15. These funds, along with financial assistance from other multilateral institutions, are intended to close the balance of payments and fiscal gaps amid the pandemic-related unbudgeted spending needs of the government. The Fund continues to work closely with the authorities providing them with timely policy advice and tailored technical assistance during these difficult times.

3. **Downside risks to the outlook include a more protracted and deeper global pandemic.** The economic outlook is subject to an unusual degree of uncertainty, as elsewhere in the world, as exit from the pandemic remains unclear. In the case of a deeper and more protracted shock, further disruptions to global trade and capital flows would add to the pressure on Panama's current account and external debt. Softer aggregate demand would consequently lower GDP growth. Also, the longer Panama stays in the FATF's grey list the higher the risk of countermeasures by partner countries, with a potential adverse effect on correspondent banking relations and credit channels.

4. **Fiscal policy has been sound while public debt remains sustainable despite a deteriorated fiscal position.** The authorities responded to the pandemic with a timely and appropriate fiscal support package which, combined with weaker revenues, contributed to a wider deficit in 2020, temporarily deviating from the fiscal target set under the 2008 Social and Fiscal

Responsibility Law (SFRL). Fiscal management has been consistently prudent in the past and the authorities envisage returning to their SFRL fiscal targets by 2023 as the pandemic recedes. Adherence to the fiscal rule has facilitated the decline in NFPS gross debt from 60 to 41 percent of GDP over the last decade, and accumulation of assets by the Savings Fund of Panama. Debt will rise again due to the fiscal imbalances, peaking at 61 percent of GDP in 2022, and declining thereafter.

5. **The authorities continue making progress on financial integrity and tax transparency.** Following Panama's designation by the FATF as a "jurisdiction with strategic deficiencies" in its AML/CFT regime in June 2019, the authorities have taken steps to improve technical compliance (including by criminalizing tax evasion and implementing a number of legal reforms) and remain committed to implement the FATF action plan in order to exit the grey list as soon as possible. A progress report is to be delivered to the FATF by January 2021.

6. **The medium-term outlook remains favorable.** Once the pandemic is contained, economic activity is expected to rebound and stabilize around its potential level of output, with fiscal pressures abating as economic stimulus is gradually withdrawn. Meanwhile, the financial system remains sound—with no bank liquidity or solvency issues—and well supervised following international best practices and Basel standards. Structural reforms will ensure that growth is broad-based and sustainable.

Table 1. Panama: Selected Economic and Social Indicators, 2015–25

Population (millions, 2019)	4.2	Poverty line (percent, 2017)	20.7
Population growth rate (percent, 2019)	1.4	Adult literacy rate (percent, 2018)	95.4
Life expectancy at birth (years, 2017)	78.1	GDP per capita (US$, 2019)	15,834
Total unemployment rate (August, 2019)	7.1	IMF Quota (SDR, million)	376.8

					Est.	Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(Percent change)						
Production and prices											
Real GDP (2007 prices)	**5.7**	**5.0**	**5.6**	**3.7**	**3.0**	**-9.0**	**4.0**	**5.0**	**5.0**	**5.0**	**5.0**
Consumer price index (average)	0.1	0.7	0.9	0.8	-0.4	-0.8	0.2	1.1	2.0	2.0	2.0
Consumer price index (end-of-year)	0.3	1.5	0.5	0.2	-0.1	-0.5	0.5	2.0	2.0	2.0	2.0
Output gap (% of potential)	-0.3	-0.2	1.7	2.9	4.6	-5.5	-3.3	-1.1	0.0	0.0	0.0
Demand components (at constant prices)											
Public consumption	**7.6**	**10.1**	**6.5**	**7.5**	**1.7**	**4.2**	**-8.4**	**-10.5**	**-12.2**	**7.2**	**5.7**
Private consumption	2.8	7.1	3.1	2.3	3.4	-1.9	0.8	4.4	4.4	1.5	3.1
Public investment 1/	-20.4	49.0	-20.7	7.0	0.2	-27.0	36.5	-6.6	0.9	9.3	0.9
Private investment	12.6	-5.5	14.9	-0.1	0.0	-18.5	6.6	10.2	8.5	7.0	5.7
Exports	0.9	-4.3	5.0	5.0	-4.9	-26.4	17.1	8.5	7.1	7.4	7.4
Imports	-0.1	-4.8	4.7	2.8	-2.5	-22.4	14.4	4.4	4.1	5.1	5.0
Financial sector											
Private sector credit	**11.4**	**8.4**	**6.5**	**4.5**	**2.4**	**1.0**	**2.0**	**6.2**	**7.1**	**7.1**	**7.1**
Broad money	5.5	4.2	5.2	2.8	2.4	2.1	6.6	6.2	7.1	7.1	7.1
Average deposit rate (1-year)	2.7	2.7	2.7	3.5	3.9	...	...	...	...	...	...
Average lending rate (1-year)	3.3	3.5	3.5	4.3	4.7	...	...	...	...	...	...
					(In percent of GDP)						
Saving-investment balance											
Gross domestic investment	**42.8**	**40.5**	**41.7**	**41.3**	**40.4**	**33.8**	**35.9**	**36.7**	**37.5**	**38.3**	**38.3**
Public sector	5.5	7.8	5.9	6.1	5.5	4.4	5.8	5.2	5.0	5.2	5.0
Private sector	37.2	32.7	35.8	35.2	34.9	29.4	30.1	31.5	32.5	33.1	33.3
Gross national saving	33.8	32.7	35.8	33.1	35.2	26.8	29.7	31.5	33.0	34.8	35.2
Public sector	3.0	3.9	4.2	4.2	2.5	-4.4	-2.3	1.1	2.9	3.1	3.4
Private sector	30.8	28.8	31.5	28.9	32.7	31.2	32.0	30.4	30.1	31.7	31.8
Public finances 1/											
Revenue and grants	**22.7**	**22.6**	**22.0**	**21.9**	**20.8**	**17.3**	**20.3**	**21.9**	**22.5**	**22.8**	**23.0**
Expenditure	25.9	24.8	24.2	24.8	23.4	25.8	27.2	25.5	24.0	24.4	24.0
Current, including interest	16.8	16.7	17.0	17.1	17.8	21.4	21.4	20.3	19.1	19.2	19.0
Capital	9.0	8.0	6.9	6.5	5.6	4.4	5.8	5.2	5.0	5.2	5.0
Overall balance, including ACP	-3.2	-2.2	-2.2	-2.9	-2.6	-8.6	-6.9	-3.6	-1.6	-1.5	-1.1
Overall balance, excluding ACP	-2.4	-2.0	-2.2	-3.2	-3.1	-9.0	-7.4	-4.0	-2.0	-2.0	-1.5
Total public debt											
Debt of Non-Financial Public Sector 2/	**35.5**	**34.8**	**34.8**	**36.8**	**41.0**	**55.0**	**60.1**	**60.6**	**58.9**	**57.3**	**55.3**
External	28.2	28.5	28.7	30.5	34.9	48.3	54.2	55.0	53.7	52.3	50.7
Domestic	7.3	6.3	6.1	6.2	6.1	6.6	5.9	5.7	5.3	5.1	4.6
Debt of ACP	5.1	4.7	4.4	4.2	3.9	4.2	3.8	3.4	3.0	2.7	2.4
Other 3/	3.1	3.8	3.4	4.2	4.1	4.6	4.4	4.1	3.8	3.6	3.4
External sector											
Current account	**-9.0**	**-7.8**	**-5.9**	**-8.2**	**-5.2**	**-7.0**	**-6.2**	**-5.2**	**-4.5**	**-3.5**	**-3.1**
Net exports from Colon Free Zone	2.7	2.9	3.0	2.5	2.7	2.2	2.4	2.5	2.7	2.7	2.7
Net oil imports	3.5	3.4	3.8	4.4	3.8	2.7	3.0	3.0	3.1	3.1	3.0
Net foreign direct investment inflows	7.3	7.9	6.9	7.9	6.3	4.3	5.0	5.2	5.2	5.3	5.3
External Debt	161.3	159.9	149.6	151.8	156.5	197.1	197.6	195.3	191.7	186.3	181.3
Memorandum items:											
GDP (in millions of US$)	54,092	57,908	62,219	65,128	66,801	60,286	62,799	66,689	71,424	76,495	81,927

Sources: Comptroller General; Superintendency of Banks; and IMF staff calculations.
1/ Includes Panama Canal Authority (ACP). Includes Staff adjustment to account for the accrual of previously unrecorded expenditure for 2015-18.
2/ Non-Financial Public Sector according to the definition in Law 31 of 2011.
3/ Includes debt of public enterprises outside the national definition of NFPS (ENA, ETESA, and AITSA) and non-consolidated agencies.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

REPÚBLICA DE PANAMÁ
GOBIERNO NACIONAL

MINISTERIO DE ECONOMÍA Y FINANZAS
Viceministerio de Economía

November 2, 2020
MEF-2020-50559

Mr. David Malpass
President
International Bank for Reconstruction and Development
Panama

Dear Mr. Malpass:

I would like to address you on this occasion to raise to the Bank's consideration the viability of mobilizing financial resources to support the General State Budget for the fiscal year 2020, up to an amount of US$300 million for the purpose of mitigating the economic crisis generated by the negative effects produced by the COVID-19 Pandemic.

In this sense, on March 13, 2020, the Government of Panama announced a "National State of Emergency" as a consequence of the declaration of a Pandemic made by the World Health Organization (WHO), to take the necessary measures and prepare financially, economically and logistically to mitigate the effects of the declared pandemic.

Faced with this situation, the government launched an emergency action plan through the implementation of different measures, with the main objective of safeguarding lives and containing the rapid spread of the virus at the national level, among which we can mention the following: (i) dynamic restructuring $2 billion from the general state budget to guarantee the necessary resources for the emergency; (ii) restricting the mobility of people in order to reduce the rate of contagion; (iii) the implementation of the "Protect yourself Panama Plan," which includes six lines of action to prevent the spread of the COVID-19 virus; (iv) the "Panama Solidario Plan", through Executive Decree No.400 of March 27, 2020, with an initial amount of US$428 million that seeks to provide basic necessities to the most vulnerable population, which would be supporting around 250,000 workers with temporarily suspended contracts; (v) the approval of a tax payment deferment to improve the cash flow of firms (vi) and the Superintendence of Banks made special provisions for financial institutions to reach agreements on grace periods, adjustments of the interest rate and payment terms on mortgage, personal, vehicle, and credit card debt.

The government, through the Ministry of Economy and Finance (MEF), has developed a financial strategy to meet the financing needs of the national government for this year, which includes the successful issuance of global bonds for US$4.75 billion. Additionally, financial resources are being mobilized with multilateral organizations for an estimated amount of US$1,500 million, in order to guarantee the necessary resources to face the challenges of this pandemic. At the same time, Law No.139 of 2020 was approved, which authorizes the MEF to pursue a more gradual fiscal consolidation, while making room for the expenses and necessary transfers of items to help individuals, families, and companies, arising as a result of COVID-19. This will allow the development of the government's actions within a framework of long-term social and fiscal responsibility.

In labor matters, the Executive Decree No.133 of September 16, 2020 has been published, through which, Law No.126 of February 18, 2020 is regulated, creating the modality of telework in the country.

The impact of the COVID-19 pandemic, until now, has caused a decrease in tax collection, an increase in unemployment, a paralysis of international and national air traffic, and commercial activity, producing an economic slowdown in the different sectors of the economy. In this sense, the Government of Panama promoted the creation of a Special Stimulus Fund for the Banking System of Panama, with a contribution of US$500 million from MEF and US$500.0 million from the National Bank of Panama (BNP, by its Spanish acronym), in order to guarantee bank liquidity, and promote the interbank credit capacity, to contribute to the economic reactivation of the country.

Similarly, a program was implemented to support the sustainability of Micro, Small and Medium Enterprises (MIPYME, by its Spanish acronym), through a trust with the National Bank of Panama, with an initial amount of US$150 million, with the purpose of supporting financially with short- and medium-term liquid resources to MIPYME to support employment in Panama.

In addition to these short-term measures to face the COVID-19 crisis, the government continues to pursue a medium and long-term agenda of reforms for which counted with the International Bank for Reconstruction and Development (IBRD), as a key partner, to support the implementation of Panama's program of reforms, organized in three Pillars, made up of ten priority policy actions, which are detailed below:

Pillar A - Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during recovery.

Pillar A seeks to support some of the short-term measures adopted by the Government of Panama to protect human capital during the COVID-19 pandemic, as well as medium-term institutional reforms aimed at strengthening the quality and equity of the provision of services in health and education. This pillar supports three policy actions in the health, education, and social protection sectors that address the government's emergency response to preserve human capital and that promote the medium-term structural reform agenda in service provision.

The first prior action supports the legal reforms taken by the Government of Panama to improve access to high-quality generic medicines to facilitate a reduction in the out-of-pocket expenses for users of the public health system. This will be followed by the adoption of mandatory guidelines by public health establishments to distribute, prioritize and finance the COVID-19 vaccines when these becomes available to safeguard the health of groups of high risk. The expected results are twofold: (i) that fewer patients at public health facilities report lack of medicines; and (ii) that all of the health regions of Panama are ready to implement the COVID-19 immunization strategy.

The second prior action supports the measures taken by the Ministry of Education to mitigate learning losses during the COVID-19 crisis, which include: (a) the issuance of a Resolution that approves the criteria for the prioritization of the curricula for all subjects offered in pre-primary, primary, lower secondary, and secondary education during school year 2020; and (b) the issuance of a resolution that approves the temporary implementation of distance education programs and establishes the main requirements for said type of education during school year 2020. This will be followed by the approval of the legal framework to permanently integrate technologies of information and communication in the education system to accelerate learning, particularly among the poor and the most vulnerable. The expected result is that students of public schools in areas prioritized by Plan Colmena use the educational technologies provided by the government to accelerate learning.

The third prior action supports emergency measures adopted by the government during the COVID-19 crisis to protect poor and vulnerable through: (a) the creation of an innovative emergency digital food vouchers (Vale Digital) aimed primarily at the poor and vulnerable in urban areas and low-wage suspended formal workers; and (b) the creation of a mechanism for the delivery of food baskets to poor and vulnerable people in rural and indigenous territories, where the distribution of digital food vouchers was not feasible. The digital food voucher was implemented using the national identification card system, which allowed beneficiaries to use their national identification cards as debit cards to buy food and basic needs items in regular grocery stores. Given that the pandemic will have lingering effects on poverty in the years to come, this prior action will be followed by the transition from the emergency measures to the support of people who are still in a situation of poverty or vulnerability during the recovery phase. This will be measured by the share of the population 18 years and above still covered by a temporary social protection program during the recovery phase.

Pillar B - Strengthening of institutions to support a more transparent and physically sustainable economic recovery.

Pillar B supports three prior actions related to the transparency and efficiency of the mobilization and use of public resources. The sharp economic slowdown and large spending pressures generated by the COVID-19 crisis are expected to increase the fiscal deficit as a share of GDP and public debt. Dwindling government revenues, due to the compound effect of the sharp economic slowdown and weakness in tax collections, are expected to lead to a significant reduction in public investments to enable the rebalancing of the fiscal accounts. The adjustment will also require reducing current spending through efficiency gains. In this context, improving procurement practices and revenues mobilization are critical to achieve sustainable savings. In a context of public sector consolidation, attracting private financing to meet Panama's important infrastructure needs is paramount, especially in poor areas outside of the capital. Strengthening the regulatory and institutional frameworks for Public Private Partnerships (PPPs) is a key condition for this to happen. At the same time, improving transparency of investment by advancing critical anti-money laundering measures will favor responsible investment flows.

The fourth prior action supports the government measures to improve the transparency of commercial operations in the territory of Panama and, at the same time, strengthen its capacity to combat tax evasion and illicit flows through: (a) the promulgation of a law that establishes the regulatory framework for the creation of the registry system of the ultimate beneficial ownership (UBO) of legal persons to facilitate the improvement of the information base to combat tax evasion and AML / CFT; (b) the issuance a manual for risk-based supervision of designated non-financial activities and professions (DNFBP); and (c) the issuance of regulations to specialize a unit of the Public Ministry for the prosecution of tax crimes. This will be followed by measures to improve the transparency of commercial operations by: (a) introducing the necessary mechanisms to guarantee that the information entered in the UBO registry is verified with a risk-based approach and is timely updated, and that penalties for non-disclosure and / or delayed disclosure are dissuasive; (b) approving the first Action Plan for the supervision of DNFBPs using the risk-based approach in the corresponding Supervision Manual and sector strategies; and (c) modifying Law 52 of 2016, to improve access to accounting records in Panama on commercial operations abroad and strengthen the penalties for non-compliance with EOI requests. The expected result is to have a functional UBO registry.

The fifth prior action supports the government's measures to improve transparency and accountability by: (a) amending the public procurement law with the purpose of: (i) facilitating an increase from the competition; (ii) stop corruption; and (iii) promote sustainable procurement by making it mandatory to establish criteria in the procurement processes of all public entities on; among others, sustainability and energy efficiency; and (b) issued a Ministerial Resolution that establishes the steps, procedures, and responsibilities necessary to ensure the generation of reliable and consolidated financial statements for the Central Government. These reforms will be followed up by measures to implemented a new next-generation electronic procurement platform (PanamaCompra 3) to all central government agencies to improve efficiency, transparency and control, and (ii) to advance in the generation of reliable and consolidated financial statements for the central government: (a) validating and reporting to ISTMO the accounting balances of the bank accounts of all central government entities and the General Treasury Account, (b) reporting in ISTMO all central government revenues, including tax and non-tax revenues, and (c) erase all accounting inconsistencies from Control Accounts 993 and 994 for all central government entities.

The sixth prior action supports the adoption of a legal framework for public private partnership projects, which will allow the government to bring in private capital into infrastructure investment and help the economic recovery. Following the approval of the law, the operation will support the approval of the general regulation as well as the specific fiscal regulations needed to operationalize the PPP law. The expected result is to mobilize at least US$500 million in private capital.

Pillar C - Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery.

Pillar C supports reforms to create institutions for carbon offsets and markets. The COVID-19 crisis brings an opportunity to support reforms to make the recovery more inclusive and environmentally sustainable. Panama's rapid growth has not benefited its population equally with rural and Indigenous population lagging. Additionally, the impact of the COVID-19 crisis is more pronounced in these groups. Therefore, this pillar supports institutional reforms to ensure these people will have the assets and support to benefit more in the recovery.

The seventh prior action promulgated a law for the development of family farming to promote the provision of financial and technical assistance to family farmers, improving the productivity of their agricultural activities, and increasing their food and nutrition security. The enactment of the law will be followed by the establishment and financing of the National Fund for Family Agriculture to address barriers for family farmers, in particular women and indigenous peoples, to benefit from financial and technical support; improving the productivity of their agricultural lands and to increase their food and nutritional security. The expected result is to increase the number of farmers benefiting from the National Family Agriculture Fund, which have a large representation of women and Indigenous Peoples.

The eighth prior action supports a regulation from the Ministry of the Environment, that establishes the legal basis to facilitate: (a) the recognition of collective lands to the Indigenous Peoples in national protected areas, (b) improving tenure security, and (c) reducing pressures on natural resources. As a follow-up measure, the government plans to institutionalize the participatory processes for the participation of Indigenous Peoples in the development of their own development plans. The expected results are an increase in the protected areas and increased voice to Indigenous People.

The ninth prior action supports the government's efforts to increase the participation of renewable energies in the country's energy supply, by modifying the regulation on the contracting standards of the wholesale electricity market to facilitate the participation of renewable energies, by introducing an alternative that eliminates barriers and provides flexibility in energy supply tenders in the bidding process. This policy will be followed by measures to steer subsidies towards cleaner energy alternatives. .

The tenth prior action supports the government efforts to transition to a low-carbon economy by creating the Sustainable System of National Inventories of Greenhouse Gases (SSINGEI) and the National Emissions Registry to define carbon offsets and deploy a national carbon market. This will be followed by publishing preliminary guidelines for gradually implementing and operating the initial phase of the national GHG emissions trading system. The measure will contribute to an increase in share of GHG emissions regulated by economic-wide policy instruments to reach 100 percent by 2022.

Finally, the Government of Panama is committed to each of the policy actions taken, aimed at reducing the negative effects of COVID-19, on one hand; and on the other hand, to achieve recovery, economic stability, as well as the protection of the most vulnerable social groups and sectors. We inform you of our firm decision to continue working on the fulfillment and development of the Program. In this regard, we reiterate our appreciation for the support provided by the Bank and we await the pertinent steps in order to achieve this operation.

Sincerely,

Enelda Medrano de Gonzalez
Viceminister

EMdG/EPCJ/AML/VDLR/jvr

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar A – Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery		
Prior Action #1. The Borrower has enacted legislation and taken measures to facilitate the reduction of out-of-pocket expenses for the users of the public health system by improving access to high-quality generic medicines.	No	Moderate to low positive effects (in the short and long term). Group most affected: the poor, particularly those without access to public health insurance in rural areas and across Indigenous populations.
Prior Action #2. The Borrower, through the Ministry of Education, has taken measures to mitigate learning losses including: (a) the issuance of a resolution approving a criterium for curricula prioritization for all subjects offered in pre-primary, primary, lower secondary, and secondary education for the school year 2020; and (b) the issuance of a resolution approving the temporary implementation of distance learning programs and setting forth the main requirements for said type of education.	No	Moderate to low positive effects (both in the short and long term). Group most affected: school age students without access to internet and at risk of falling behind learning.
Prior Action #3. The Borrower has adopted emergency measures to protect workers and poor and vulnerable persons during the pandemic by: (a) creating emergency digital food vouchers (*Vale Digital*) targeted mainly at urban poor and vulnerable persons and suspended low-salary formal workers; and (b) creating mechanisms for the delivery of food baskets to poor and vulnerable persons in rural and Indigenous territories, where the distribution of digital food vouchers was not feasible to implement.	No	Large positive social effects (mostly in the short term). Group most affected: the poor, particularly the informal poor not receiving benefits from existing transfers Large positive effects (mostly in the short term). Group most affected: vulnerable, low-income formal workers
Pillar B - Strengthening institutions to support a more transparent and fiscally sustainable economic recovery		
Prior Action #4. The Borrower has taken actions to enhance the transparency of business operations in the Borrower's territory while at the same time strengthening its capacity to fight tax evasion and illicit flows, including by: (a)	No	Neutral poverty effects and low to neutral distributional effects (PA needs to be effective and increased revenues used for poverty reduction or social aims). Groups most affected: high income earners and business

enacting a law establishing the regulatory framework for the creation of the system of registry of ultimate beneficial ownership (UBO) of legal persons to facilitate the improvement of the information basis for combating tax evasion and AML/CFT; (b) issuing a manual for risk-based supervision of designated non-financial businesses and professions (DNFBPs); and (c) issuing a regulation to specialize a unit within-the Public Prosecutor's Office to prosecute tax crimes.		conducting tax evasion. Likely long run positive effects in the overall economy if tax evasion is reduced.
Prior Action #5. The Borrower has taken steps to improve transparency and accountability by: (a) amending the public procurement law to: (i) facilitate an increase in competition; (ii) curb corruption; and (iii) promote sustainable procurement by mandating the establishment in the procurement processes for all public entities criteria on, *inter alia*, sustainability and energy efficiency; and (b) issuing a resolution that establishes the steps, procedures and responsibilities necessary to ensure the generation of reliable and consolidated financial statements for the central government.	Positive	Neutral to low poverty and distributional effects (a successful PA will benefit all by increasing revenues in the short term and improving the environment in the longer term).
Prior Action #6. The Borrower has enacted a law creating the Public Private Partnership regime to regulate the institutional framework and the processes for the development of investment projects under the public-private modality including the creation of a National Secretariat for PPPs to facilitate a more efficient design, procurement, and maintenance of public infrastructure, the saving of fiscal resources, and an increase of private investment.	Positive	Neutral to low poverty effects and distributional effects (PA needs to be effective and increased revenues used for poverty reduction or social aims).
Pillar C – Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery		
Prior Action #7. The Borrower has enacted a law for the development of family agriculture to promote the provision of financial and technical assistance to family farmers to improve the productivity of their agriculture activities and to increase their food and nutritional security.	Positive effects overall, but with potential negative environmental effects from encroachment but these are managed explicitly in the Law itself, balancing	Moderate to high positive effects. Group most affected: Poor rural families and their households. .

	conservation and livelihoods. Additional management measures include the strong national regulatory framework to assess and manage any potential environmental impacts	
Prior Action #8. The Borrower, through the Ministry of Environment, has issued a regulation establishing the legal basis to facilitate: (a) the recognition of collective land to Indigenous Peoples on national protected areas, (b) the improvement of security of tenure, and (c) the reduction of pressures on natural resources.	Positive environmental impacts in longer-term due to increased capacity of Indigenous Peoples communities to steward and preserve land.	Moderate to low positive effects (short term and long term): food security, preserving culture, decrease conflict and invasion, accessing funding. Groups: Indigenous Peoples communities.
Prior Action #9. The Borrower, through Regulatory Authority for Public Services (ASEP), has modified the regulation on the procurement rules for the wholesale electricity market to facilitate the participation of renewable energy by introducing an alternative that eliminates barriers and provides flexibility in energy supply bids in the tendering process.	Positive environmental effects through improved air quality and cleaner energy grid.	Neutral to low poverty and distributional effects (a successful PA will benefit all by increasing revenues in the short term and improving the environment in the longer term).
Prior Action #10. The Borrower has issued a decree establishing the Sustainable System of National Greenhouse Gases Inventories (SSINGEI) and creating the National Emissions and Mitigations Actions Registry.	Positive environmental effects owing to likely increased environmental integrity of Panama's contribution to the global climate agenda through the creation of inventories as a necessary enabling condition for a national carbon market.	Neutral to low poverty and distributional effects (positive long-term effects may arise for populations directly affected by greener activities).

ANNEX 5: THEORY OF CHANGE

<table>
<tr><th>INPUTS</th><th>REFORM ACTIVITIES</th><th>OUTPUTS</th><th>INTERMEDIATE OUTCOMES</th><th>OUTCOMES</th></tr>
<tr><td>Technical Assistance</td><td>Simplifying registration of new or imported medicines
Standardizing, expanding, and promoting use of generic medicines
Strengthening quality control of generic medicines</td><td>Increased number of high-quality generic medicines available to treat COVID-19 patients and pre-existing conditions</td><td>Reduced out-of-pocket expenses for medicines for user of public health system
Improved access to high-quality generic medicines</td><td rowspan="3">Protected human capital during the COVID-19 crisis</td></tr>
<tr><td>Diagnostics and policy dialogue</td><td>Curricula prioritization
Implementing temporary distance learning programs</td><td>Increased use of ICTs by students during school closures</td><td>Mitigate learning losses due to the pandemic</td></tr>
<tr><td></td><td>Creating emergency digital food vouchers program
Distributing food baskets</td><td>Increased number of individuals supported by emergency cash transfer programs</td><td>Partially compensate poor and vulnerable individuals for loss of income due to the pandemic</td></tr>
<tr><td>Coordination and collaboration with development partners</td><td>Adopting guidelines for COVID-19 vaccination</td><td>High-risk population receiving complete scheme of COVID-19 vaccine</td><td>Safeguard the health of the most vulnerable groups</td><td rowspan="2">Strengthened institutions to foster human capital accumulation during the recovery</td></tr>
<tr><td></td><td>Integrating ICTs to the education system</td><td>Increased use of ICTs by students during the recovery phase</td><td>Accelerated learning, particularly among the poor and most vulnerable</td></tr>
</table>

<table>
<tr><th>INPUTS</th><th>REFORM ACTIVITIES</th><th>OUTPUTS</th><th>INTERMEDIATE OUTCOMES</th><th>OUTCOMES</th></tr>
<tr><td></td><td>Reducing exclusion errors in allocation of non-emergency cash transfer programs</td><td>Increased number of beneficiaries of non-emergency cash transfer programs</td><td>Expanded coverage of non-emergency cash transfer programs in indigenous territories</td><td></td></tr>
<tr><td rowspan="3">Technical Assistance

Diagnostics and policy dialogue

Coordination and collaboration with development partners</td><td>Enhancing information systems to reduce tax evasion and AML/CFT

Creating unit to prosecute fiscal crimes

Operationalizing UBO registry

Instituting random or risk-based verifications of UBO registry</td><td>Increased number of legal persons included in the UBO registry</td><td>Reduced tax evasion and AML/CFT</td><td rowspan="3">Strengthened institutions to support a more transparent and fiscally sustainable economic recovery</td></tr>
<tr><td>Rolling out e-procurement platform integrated with ISTMO

Generating reliable and consolidated financial statements for Central government</td><td>Central government institutions using e-procurement system</td><td>Improved efficiency, transparency, and adoption of environmental and energy efficiency procurement</td></tr>
<tr><td>Designing, procuring, and maintaining public infrastructure

Creating, operationalizing, and staffing national secretariat for PPPs</td><td>Increased PPP projects</td><td>Increased private investments</td></tr>
</table>

INPUTS	REFORM ACTIVITIES	OUTPUTS	INTERMEDIATE OUTCOMES	OUTCOMES
Technical Assistance	Establishing and funding Family Farming National Fund	Increased provision of financial and technical assistance to family farmers	Improved agricultural land productivity Increased food and nutritional security among farmers	Strengthened institutions to support a more inclusive and environmentally sustainable economic recovery
Diagnostics and policy dialogue	Recognizing and expediting issuance of collective land titles	Increased number of public investment projects registered in SNIP aligned with National Indigenous Peoples Development Plan	Improved land security for IPs Reduced pressure on natural resources in protected areas	
Coordination and collaboration with development partners	Allowing flexible energy supply bids Reforming energy subsidies	Increased auctions awarded to variable renewable sources	Improved participation of renewable energy in energy auctions	
	Creating SSINGEI and National Emissions Registry Releasing guidelines to implement national GHG emissions trading system	GHG emissions monitored using SSINGEI	Defined carbon offsets and deployed national carbon market	

ANNEX 6: COUNTRY PROGRAM ADJUSTMENT RESPONDING TO COVID-19

A. Impact of the COVID-19 pandemic on the country and government response

1. The government's response to the pandemic has been agile, including the introduction of strong containment measures, reallocating spending, and mobilizing resources to fund the health response and programs to support firms and the vulnerable segments of the population. A COVID-19 situation room was created since January 2020 and a Health System Operational Plan to Prevent and Control COVID-19 was launched. A national emergency was declared on March 13, 2020 followed by strict quarantine measures to restrict mobility, including closure of businesses except some essential services and industries. An emergency hospital was also built in less than a month to increase capacity for treatment of COVID-19 patients. The government mobilized resources, including from *Fondo de Ahorro* (US$85 million), to expand social programs such as subsidies for social housing, implement digital payments and expand coverage of its CCT program, the creation of a new program *Panama Solidario* to provide food baskets and vouchers to beneficiaries, and also enacted policies to protect jobs. Finally, in the absence of a central bank, Panama's two state-owned banks, *Caja de Ahorros* and *Banco Nacional de Panamá*, are expected to provide liquidity to companies and other financial institutions to help the economy weather and rebuild from the COVID-19 crisis.

B. WBG support for responding to the crisis

2. The Bank's strategy first consisted in restructuring its portfolio, made up of 6 projects for a total commitment of US$346 million: (i) closing an unsatisfactory water project (U$65 million); (ii) accelerating the implementation of projects focused on improving access to health and water and sanitation services to Indigenous populations to mitigate the health impacts of the pandemic in vulnerable populations; (iii) restructuring a CAT-DDO allowing fast disbursement of US$41 million to address immediate health related financing needs; and (iv) repurposing an existing social protection project to finance CCT transfers to address the economic and social emergency by protecting the poor. In addition, a health emergency FTF operation (US$20 million) was approved to further support the immediate health response by supporting the procurement of much needed medical equipment and supplies.

3. Looking into building forward better, the Bank will support the Government of Panama (GoP) to protect human capital and build a more inclusive and sustainable economy, including through this programmatic Development Policy Financing (DPF) series. This operation is aligned with the WBG COVID-19 Crisis Response Approach Paper. First, it supports reforms on health, education, and social protection to protect human capital during the relief stage under the second pillar on "Protect poor and most vulnerable."; Second, it supports reforms to restore human capital and promote inclusion and economic empowerment during the restructuring stage; and Third, it supports reforms to strengthen institutions for revenue collection, transparency in business transactions and public procurement, and to mobilize private sector finance for development under the fourth pillar on "Strengthen policies, institutions and investments for rebuilding better" during the resilient recovery stage. Last, the reforms supported by this DPF are consistent with IBRD's policies for countries above the Graduation Discussion Income (GDI).

4. In addition, the Bank's efforts will continue focused on: (i) protecting the human capital of the poor and vulnerable by strengthening the country's public health and education systems, and broadening social assistance and jobs agenda to improve skills and foster inclusion; (ii) Strengthening policies, institutions and investments for rebuilding better by enhancing infrastructure programs and mobilizing

private sector through guarantees and technical assistance under its recently approved PPP law, enhancing water resource management and support sustainable transport and energy programs, and improving the country's disaster risk management agenda. Likewise, IFC is working towards helping the banking sector build capital buffers and is also working on extending a guarantee to the Panama Canal for US$500 million. MIGA is mobilizing approximate US$1 billion to the state-owned banks *Banco Nacional de Panamá* and *Caja de Ahorros* on lending to domestic banks in response to liquidity constraints and to provide financing to MSMEs.

Table 1: Country Program Adjustments Responding to COVID-19

Original CPF Program FY15-FY21	**Country Program Adjustment to COVID-19**	**Lending Pipeline (October 2020)**
Pillar I: Supporting Continued High Growth • Support enhanced logistics and connectivity • Increase reliability of energy supply • Improve budget mgmt. transparency and capacity **Pillar II:** ***Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups*** • Complement social assistance with productive inclusion • Improve access to water and sanitation services ***Pillar III: Bolstering Resilience and Sustainability*** • Strengthen resilience to natural disasters • Support integrated water resources management	**I. Saving Lives threatened by the Virus:** • Public Health response to the covid-19 (MPA Health IPF) **II. Protecting Poor and Vulnerable people:** • Inclusive modern basic services delivery (focus IPs & Afros) • Accelerating access to social programs (CCTs) • Territorial development and urban upgrading (slums) **III. Build Resilience in Recovery:** • Human capital, skills and jobs agendas, Infra & MSMEs –WBG agenda **IV. Strengthening Policies, Institutions and Investments for resilient and sustainable recovery:** • Fiscal policies to put Panama on a sustainable and inclusive growth model • Strengthening Human Capital • Managing risks - DRM agenda • Water management (WBG) • Sustainable transport and energy (WBG) • Business Climate-Fiscal Transparency/AML/FT (WBG)	**Protecting human capital during the COVID-19 crisis and build a more inclusive and sustainable economy (DPF Programmatic series)** **Leveraging Private Sector for Greener Economic Recovery through PPPs (IPF + Guarantees)**