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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF $250 MILLION TO

REPUBLIC OF PANAMA

FOR THE

PANAMA PANDEMIC RESPONSE AND GROWTH RECOVERY DEVELOPMENT POLICY LOAN 2

May 26, 2022

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Macroeconomics, Trade And Investment and Social Protection and Jobs Global Practices
Latin America And Caribbean Region

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Republic of Panama

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of May 26, 2022)

Currency Unit

PAB 1.00 = US$1.00

ABBREVIATIONS AND ACRONYMS

AIG	Governmental Innovation Agency (*Agencia de Innovación Gubernamental*)
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASA	Advisory Services and Analytics
ASEP	Regulatory Authority for Public Services (*Autoridad Nacional de los Servicios Públicos*)
BCIE	Central American Bank for Economic Integration (*Banco Centroamericano de Integración Económica*)
BNP	National Bank of Panama *(Banco Nacional de Panamá)*
CA	Central America
CAD	Current Account Deficit
CCT	Conditional Cash Transfers
COVID-19	Coronavirus Disease 2019
CPF	Country Partnership Framework
CSS	Social Security Agency *(Caja de Seguro Social)*
DGCP	Directorate General for Public Procurement (*Dirección General de Contrataciones Públicas*)
DGI	Directorate General for Taxes *(Dirección General de Ingresos)*
DNFBP	Designated Non-Financial Business and Professions
DPF	Development Policy Financing
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ETA	Energy Transition Agenda
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
GEI	Government Effectiveness Indicator
GIZ	German Agency for International Cooperation
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 Económica)*
IMF	International Monetary Fund
IP	Indigenous Peoples
NDC	Nationally determined contributions
NGO	Non-governmental Organization
NPPS	New Panama Solidarity Plan (*Nuevo Plan Panamá Solidario*)
OECD	Organization for Economic Cooperation and Development
OIT	Original Indicative Trigger
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
PLL	Precautionary and Liquidity Line
PLR	Performance and Learning Review
PPP	Public Private Partnerships
PPS	Panama Solidarity Plan *(Plan Panamá Solidario*)
RdO	Network of Opportunities (*Red de Oportunidades)*
RUAF	Family Farmers Single Registry *(Registro Único de Agricultores Familiares)*
SCD	Systematic Country Diagnostic
SFRL	Social and Fiscal Responsibility Law
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 Privadas*)
SINIP	National System of Public Investment
SOE	State-Owned Enterprise
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
WBG	World Bank Group

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REPUBLIC OF PANAMA

PANAMA PANDEMIC RESPONSE AND GROWTH RECOVERY DEVELOPMENT POLICY OPERATION 2

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P175930	Yes	2nd 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	**250.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	250.00

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 with strengthened institutional capacity for the provision of healthcare services (number).[1]	0 (2020)	10 (2023)
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 2022-2023 (unique users, at least one access per month) (number)	0 (2019)	50,000[2] (2023)
Results Indicator #3: Population aged 18 or older covered by a temporary social protection program (percentage)	26 (2021)[3]	15 (2022)[4]
Results Indicator #4: Legal persons included in the ultimate beneficial ownership (UBO) registry and risk-based verifications conducted (percentage)	0 (2019)	80 (legal persons registered) and 100 (high-risk persons inspected) (2023)
Results Indicator #5: Central government institutions using e-procurement system (*PanamaCompra 3)* (number)	0 (2019)	90 (2023)
Results Indicator #6: Publication of consolidated financial statements (number)	0 (2019)	at least 4 (2023)
Results Indicator #7: Private-sector financing mobilized to fund infrastructure services under the PPP law (US$)	0 (2019)	500 million (2023)
Results Indicator #8: Family farmers benefiting from the Family Farming National Fund (number and percentage)	0 (2019)	5,000, of which 40 percent are women-led households and 40 percent are Indigenous Peoples (2023)
Results Indicator #9: Programs registered in SINIP that have been designed in consultation with the IP Council (number).	0 (2019)	12 (2023)
Results Indicator #10: Total area of national protected areas under enhanced conservation and social inclusion regulation (hectare)	0 (2019)	1,000,000 (2023)
Results Indicator #11: Increase in electric vehicle registrations (number).	200 (2020)	500 (June 2023)
Results Indicator #12: GHG emissions regulated under economy-wide policy instruments (percentage)	0 (2019)	100 (2023)

[1] A health region is considered to have improved institutional capacity when the following conditions have been met: (1) total number of tele-consultations services are provided to at least 1,000 persons; and (2) the number of interchangeable generic drugs acquired by the health region increased compared to 2019.
[2] 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.
[3] Plan Panama Solidario covered 26 percent of the population 18 years of age in December 2021.
[4] The target of this indicator is lower than the baseline since it is expected that, as the economy recovers, some groups who were benefiting from *Plan Panama Solidario* will not require assistance of the *New Panama Solidarity Plan* (e.g., suspended formal workers).

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

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation supports the Government of Panama (GoP)'s program to protect human capital during the Coronavirus Disease (COVID-19) crisis, while strengthening institutions to foster human capital accumulation and support a more inclusive and sustainable economic recovery.** The proposed $250 million operation is the second in a series of two programmatic Development Policy Financing (DPF) operations. The Panama Pandemic Response and Growth Recovery Development Policy Operation (P174107, DPF 1) for $300 million was approved by the Board of Executive Directors on December 8, 2020. The proposed DPF series supports Panama's efforts to: (i) address key institutional weaknesses; (ii) reduce long-term inequities, and (iii) support two key global public goods – namely, combating illicit financial flows and contributing to adaptation and mitigation to climate change. The series is organized around three pillars. Pillar A includes measures aimed at protecting human capital during the COVID-19 crisis while also improving institutions for human capital accumulation during the recovery. Pillar B comprises policy and institutional reforms for rebuilding a more transparent and fiscally sustainable economy. Pillar C focuses on institutional reforms to improve agricultural productivity, foster inclusion of Indigenous Peoples (IP), and promote the adaptation and mitigation to climate change.

2. **Panama's exceptional pre-pandemic growth was not accompanied by sustained progress on social and institutional dimensions.** Between 2000 and 2019, Panama's Gross Domestic Product (GDP) per capita relative to that of the United States increased from 11 percent to 24 percent. Sustained growth, fueled by reforms and large investments, pushed Panama's Gross National Income (GNI) per capita[5] of $14,920 current dollars in 2019 above the Graduation Discussion Income (GDI). The poverty headcount (at $ 5.5/day, purchasing power parity 2011) reached approximately 12 percent in 2019, a third of its level in 2000. Yet, rural poverty and poverty in the Indigenous Comarcas remain high at 28 percent and 70 percent, respectively, while education and health outcomes lag significantly compared to other high- and middle-income countries. Panama's Human Capital Index (HCI)[6] of 0.50 is lower than those of middle-income countries such as Colombia (0.60), Peru (0.61), and Ecuador (0.59). Similarly, Panama's public institutions (i.e., regulatory enforcement, regulatory governance, regulatory quality, and government effectiveness) are well below its structural peers.[7] Panama performs at the bottom 25th percentile of the group in most indicators.

3. **The COVID-19 crisis hit Panama particularly hard due to its geographic position, urban density, and economic structure.** Panama had the highest infection rate in the Latin America and Caribbean (LAC) region during most of 2020 and, with 19,685 cumulative cases per 100,000 inhabitants as of May 25, 2022, it still has one of the highest in the region.[8] The country's geographic position in the middle of the American continent coupled with its role connecting Asia and America makes it especially vulnerable to COVID-19 transmission. Panama's dense urban areas and its economic reliance on transport and trade also contribute to the spread of

[5] Atlas method
[6] 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 he or she lives.
[7] Costa Rica, Bulgaria, Croatia, Uruguay, and Dominican Republic (taken from the 2015 Systematic Country Diagnostic (SCD) Report No. 93425-PA).
[8] https://covid19.who.int/region/amro/country/pa

the virus. The government's response to the pandemic has been agile and has adequately evolved with the pandemic. It included the introduction of strong containment measures at first, followed by gradual liberalization as cases declined. Other measures have included the reallocation and the mobilization of resources to fund the health and social response. The pandemic seems to be receding in Panama, with the number of new cases consistently declining since January 2022. While the peak related to Omicron resulted in an increase in deaths, this was lower than the peaks before vaccination had begun. The country had 72.9 percent of the population vaccinated with at least two doses as of May 25, 2022.

4. The impacts of the COVID-19 crisis 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 led to a decline in GDP by 17.9 percent in 2020, among the steepest contractions in LAC, and eroded macroeconomic buffers. The overall fiscal deficit exceeded 10 percent of GDP in 2020, upon a waiver of the country's Social and Fiscal Responsibility Law (SFRL)[9], bringing the public debt close to 70 percent of GDP. Despite government efforts, the pandemic disrupted the provision of essential health and education services, affecting livelihoods and food security, and leaving almost one million students out of school for approximately two years.[10] Poor and vulnerable groups are bearing a disproportionate cost of the crisis as they are more likely either to have jobs that cannot be done remotely or to work in the informal sector, with limited access to the regular social security or safety nets. Poverty increased by almost 3 percentage points, bringing the poverty rate to 14.8 percent of the population in 2020.[11] 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 about 70 percent of informal jobs. These sectors also indirectly employ 50 percent of women, 70 percent of IP, and 56 percent of Afro-descendants.[12] While economic and social outcomes start recovering in 2021, it will take years until impacts are fully mitigated.

5. While economic and social outcomes started improving in 2021, the repercussions of the Russia-Ukraine war are likely to delay Panama's full recovery. GDP grew by 15.3 percent in 2021, supported by copper production and Canal activity, but remains below the pre-crisis trend. Unemployment receded, but with higher levels of informality and self-employment. Higher food insecurity and lower participation in primary and secondary education[13], will likely have long lasting effects in human capital. While a lower fiscal deficit and higher GDP brought the debt to GDP ratio back to 63.7 percent in 2021, the baseline Debt Sustainability Analysis suggests it will take almost a decade until this ratio returns to pre-pandemic level. New economic shocks such as the higher international prices of food and fuel caused by the war in Ukraine will increase the external deficit, and their pass-through will impact the purchasing power of households, particular poor, and vulnerable ones. Efforts to mitigate these social impacts are expected to add new pressure on the fiscal account. However, the authorities have ample room to accommodate this shock and, thus, the fiscal and external positions are expected to remain sustainable. Panama's overall macroeconomic framework is deemed adequate for policy lending

[9] The SRFL foresees limits for the NFPS deficit (less than 2 percent of GDP) and NFPS net debt (less than 40 percent of GDP), plus primary balance and current savings (both must be positive). In the case of national emergencies or when GDP growth is below 1 percent, the government can request that parliament waivers all limits. After such a waiver, the fiscal deficit is reduced in a gradual manner by one third every year.
[10] *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*
[11] Poverty estimate is based on the $5.5 per capita per day poverty line at 2011 Purchasing Power Parity prices.
[12] Situacion de la población ocupada 2019
[13] The data source is the WB COVID-19 High Frequency Monitoring Survey.

6. **Panama's geographic location exposes it to the increasing frequency and intensity of multi-hazard events**. Panama is at high risk of earthquakes, tsunamis and epidemics, as well as climate-related hazards such as wildfires, landslides and urban, riverine and coastal floods. Projections[14] of the Panama's future climate identify a likely increase in temperature and greater variance in rainfall; and in areas affected by wildfire hazard, the fire season is likely to increase in duration due to longer periods without rain. This poses severe consequences for the economy as a whole and it poses a particular threat to areas surrounding the Panama Canal.[15] In the first half of 2019, an El Niño-triggered drought led to economic losses estimated at US$15 million in Canal revenues, as well as a significant loss of crops and an alarming decline in freshwater resources. Extreme weather events attributable to climate change such as intense storms, floods, and droughts are also negatively affecting people's livelihoods in rural areas.

7. **This DPF series aims to protect the poor and vulnerable from the impacts of the crisis, strengthen the country's human capital and promote inclusion.** Reforms in health and education, supported under this operation will help institutional strengthening and improve resilience of service delivery through digital transformation. The implementation of remote health services is mitigating the disruption in healthcare service provision caused by COVID-19 and reducing the spread of the virus, which along with the implementation of a COVID-19 vaccine deployment plan is helping protect lives. Meanwhile, the integration of accessible information and communication technologies (ICT) to the education system will help accelerate learning, especially among poor and vulnerable students, including students with disabilities, which were particularly hard hit by pandemic induced learning disruptions. The new emergency social intervention (*Nuevo Panama Solidario*) will support the livelihood and economic integration of poor and vulnerable households that continue to suffer due to the crisis. Policies to support family farming will have a special focus on woman-led households and IP to help close gender gaps in agriculture. In addition, reforms to establish a legal framework for the development of IP through participatory processes will contribute to close historical gaps in a culturally appropriate manner.

8. **The DPF series also supports key institutional reforms to promote fiscal and environmental sustainability, including global public goods, consistent with IBRD's Graduation Policy and WBG Corporate priorities.** Key institutional reforms supported by this series include the establishment of the legal and institutional framework to launch the Public-Private Partnership (PPP) program that will help private capital mobilization, as well as the establishment of the registry of Ultimate Beneficial Ownership (UBO), which strengthen regulatory governance, quality, and enforcement of information exchange and transparency needed to attract additional Foreign Direct Investment (FDI). The operationalization of the UBO registry is also a critical reform for supporting anti-money laundering and for combating the financing of terrorism and international tax evasion, important global public goods. Procurement reforms supported by the DPF series strengthen core institutions to improve the effectiveness of government spending. Finally, on climate change, the operation helps address adaptation and mitigation challenges, backing reforms that support the advancement of climate-smart family farming, the incorporation of energy and environmental issues in procurement processes, the increase of competitiveness for renewable energies, and the creation of an inventory and registry of carbon emissions to facilitate a future carbon market. By promoting institutional strengthening, improving capacity constraints in strategic sectors,

[14] These projections were made using the analytical tool ThinkHazard, developed by the Global Facility for Disaster Reduction and Recovery (GFDRR). https://thinkhazard.org/en/report/191-panama
[15] The canal's surrounding areas have already seen a temperature rise of an estimated 1.1 Celsius. This could reach up to 3.6 Celsius by 2100, posing risks of extreme droughts.

supporting gender focused policy reforms, strengthening the framework for private financing mobilization, and contributes to the global public goods agenda, the operation is aligned with IBRD's Graduation Policy.

9. The proposed operation is aligned with the World Bank Group COVID-19 Crisis Response Approach Paper, consistent with WBG's framework for Green, Resilient, and Inclusive Development (GRID) and part of a broader support effort by International Financial Institutions (IFIs) to support Panama through the COVID-19 crisis and recovery. Reforms supported under pillar A of DPF2 are fully aligned with the objective "Protecting poor and vulnerable people" under the second pillar of COVID-19 Crisis Response Approach Paper. Reforms under pillars B and C of DPF2 are aligned with the third and fourth pillar of the Approach paper, namely "Ensure sustainable business growth and job creation" and "Strengthen policies, institutions and investments for rebuilding better" during the resilient recovery stage. The proposed operation is also consistent with the framework for GRID, adopted by the World Bank Group to tackle rising poverty and deepening inequality while addressing both the immediate devastation brought by COVID-19 and the longer-term challenges of climate change. The reforms supported by this operation have been coordinated closely with engagements by other IFIs, including an International Monetary Fund (IMF) Precautionary and Liquidity Line (PLL) ($2.7 billion) for two years approved in January 2021; two operations for a total of $400 million from the Development Bank of Latin America (CAF); and an Inter-American Development Bank (IDB) budget-support operation ($350 million), and budget-support from CABEI ($250 million parallel financing to DPF1).

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

10. Prior to the COVID-19 pandemic, Panama was growing at four times the regional average, propelling it to high income status. From 2014 to 2019, Panama's GDP grew at an average rate of 4.6 percent, while the LAC region grew at an average of 0.8 percent.[16] Panama was also one of the few countries in LAC to make progress in converging to the income per capita of more developed countries. Services have been the primary driver of growth, contributing to almost two-thirds of Panama's increase in GDP. The transport, communications and financial services sectors have played a particularly notable role in growth and industry represents the second most important driver. Growth was also fueled by construction throughout the 2014-2019 period and by mining more recently (in the wake of the world's largest new copper mine opening in 2019). Construction, however, was slowing before the pandemic due to the conclusion of mega projects such as the Canal expansion and an oversupply of residential and commercial buildings. On 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.

11. The COVID-19 pandemic and significant damage from Eta and Iota hurricanes at the end of 2020 combined with limited institutional capacity, rapidly deteriorated economic activity and social indicators. Panama has been the most affected country by the COVID-19 pandemic in LAC in 2020[17], and with 19,685 cumulative COVID-19 confirmed cases per 100,000 inhabitants as of May 25, 2022, is still among the most

[16] GDP data for Panama comes from the Panama's National Institute of Census and Statistics (INDEC), while data from other countries come from the World Bank's Word Development Indicators.
[17] Panama accumulated 5,745 cases per 100,000 inhabitants by end-2020, 28 percent more than the second most affected country, Brazil.

affected.[18] Although Hurricane Eta did not hit Panama directly, the country suffered from the effects of the storm, with heavy rains, floods and landslides in November 2020, leaving significant damage to infrastructure and communications. Panama's economic structure was not able to withstand these shocks well. Its GDP declined by 17.9 percent in 2020, as construction halted from March to September 2020, and Panamanian airports were closed from March to mid-October 2020. Retail activities contracted by 19.4 percent. Unemployment reached 18.5 percent in 2020 and the poverty headcount increased to 14.8 percent in 2020, up from 12.1 percent in 2019 (at US$5.5/ day 2011 purchasing power parity). Estimates suggest that the poverty rate could have reached 18.8 percent were it not for the very effective emergency response program, *Panamá Solidario.*

12. Economic activity rebounded strongly in 2021, but the social impacts of the COVID-19 crisis are still present. The pandemic started receding in 2021 as vaccination gained momentum, reaching 72.9 percent of the total population with at least two doses by May 25, 2022. GDP grew by 15.3 percent in 2021, boosted by higher copper production (61 percent increase), increased movement at the Canal (11 percent increase in cargo volume) and in the number of airport passengers (102 percent increase)[19], as well by consumption and public investment. Construction, retail and wholesale, and mining were the main sectors driving the recovery. Labor markets showed strong signs of recovery in 2021 (the number of registered labor contracts increased by 61.5 percent from January to August of 2021); however, informality and self-employment have also increased.

13. The current account surplus of 2.2 percent of GDP in 2020, turned into a deficit in 2021. Exports grew 32.1 percent in 2021 due to higher copper exports and prices, while imports grew 46.6 percent in the same period, rebounding from the 40 percent drop in 2020 and in line with the GDP rebound in 2021. The current account turned from a surplus of US$1.2 billion in 2020 to a deficit of US$1.4 billion in 2021, which was covered by net FDI (US$1.6 billion and 153 percent growth).

14. Inflation accelerated in 2021 following a worldwide trend. The COVID-19 crisis kept average inflation low at zero percent at the end of 2020[20]. Transportation and housing expenditures were the main drivers of deflation. As oil and other commodity prices rebounded in 2021, transportation prices increased nearly 10 percent, bringing headline inflation (average) to 1.6 percent in 2021 and 2.7 percent as of April 2022. Food prices have been growing, but at a slower pace (2.1 percent in April 2022) than general inflation. Panama's inflation expectations have been well anchored thanks to the country's dollarization.

15. The Banking Sector Supervision Agency is carefully monitoring financial sector stability in the aftermath of the crisis. The crisis' impact on the banking sector has been partly delayed by Panama's regulatory forbearance measures, which allowed borrowers to renegotiate their loans (including grace periods and maturity extension) without incurring fees or penalties. Renegotiated loans were reported under a new and temporary category of credit (*créditos modificados*) that is considered as performing loans, despite having been renegotiated, and requiring only a 3-percent provision. The amount of those loans declined from US$22.9 billion in December 2020 to US$6.6 billion in March 2022, representing 12 percent of all credit stock. As forbearance measures expired in June 2021, bank portfolio indicators started to deteriorate, with non-performing loans gradually increasing from below 3 percent of total loans in December 2020 to 4.8 percent in March 2022. The profitability (return on equity) of the banks have also declined from 14.4 percent prior to the COVID-19 crisis to 6.4 percent in 2020 but has since increased to 13 percent in March 2022.The banks are still very liquid, and the

[18] https://covid19.who.int/region/amro/country/pa.
[19] Canal and airport traffic data is obtained from INDEC, while copper production data is obtained from Panama Cobre.
[20] Inflation is measured as yearly average and data is obtained from INDEC, while financial sector data comes from the Bank Supervision Agency.

ratio of regulatory capital to risk-weighted assets remained around 16 percent from June 2020 until now, helping to mitigate risks.

16. The COVID-19 pandemic led to higher spending and significantly lower revenues, but both started to adjust in 2021. Public expenditures increased from 21.3 percent of GDP in 2019 to 28.6 percent of GDP in 2020 (5.7 percent nominal increase) as the GoP responded to the COVID-19 crisis by increasing health expenditures and energy subsidies, and by creating a new transfer program (*Panamá Solidario)* to alleviate the poverty impacts of the crisis. It kept high public investment levels, to avoid further negative shocks to GDP. Budget reallocations helped moderate the overall increase in spending. As a result, total expenditures increased 6.9 percent for current and 2.3 percent for capital expenditures in 2020. Tax revenues (-26.9 percent) declined more than non-tax revenues (-9.9 percent), which were helped by the increase in revenues from the Canal which grew 5.2 percent from 2019 to 2020. In 2021, current expenditures moderated growth to 5.6 percent. Higher transfers and interest payments contributed to the increase, while purchase of goods and services declined. Meanwhile, all revenue items posted large and positive growth, but once again non-tax revenues outperformed tax revenues with an 18.9 percent growth versus 11.5 percent.

17. As revenues rebounded and expenditures stabilized, the fiscal deficit and public debt declined in 2021, from their historical peak in 2020. The pandemic brought the non-financial public sector (NFPS) deficit 10.3 percent of GDP in 2020 (up from 3.9 percent in 2019). The initial borrowing plan for 2020 called for $4.1 billion in new borrowing, but actual borrowing ended up at around $8.7 billion, despite efforts from MEF to reallocate budgetary resources towards priority spending.[21] However, in 2021, the deficit was reduced to 6.7 percent of GDP below the 7.5 percent of GDP target by SFRL. Also, public debt which had increased from 46.4 percent of GDP in 2019 to 69.8 percent of GDP in 2020[22] (Table 1[23], Figure 1), declined to 63.7 percent, being real output movements the largest driver of the debt-to-GDP ratio in this period.

18. The rapid spike in debt led rating agencies to downgrade Panama's sovereign rating, which remains above investment grade. Standard and Poor (S&P) changed the outlook to negative and downgraded the country (from BBB+ to BBB with stable outlook) in November 2020, and then changed the outlook again to negative in August 2021. One of the reasons cited by S&P for the downgrade was the increase in the ratio between interest payments and revenues for the NFSP, which rose from 10.2 percent in 2019 to 14.5 percent in 2020. Moody's changed the outlook in October 2020 and downgraded the sovereign (from Baa1 to Baa2 with stable outlook) in March 2021. Fitch downgraded Panama in February 2021 from BBB to BBB- with a negative outlook, but in January of 2022 change the outlook to stable. Panama is still two notches above investment grade for S&P and Moody's, and one notch above for Fitch. The country risk—with bond spreads of about 220 as of mid-April 2022—remains one of the lowest in LAC.

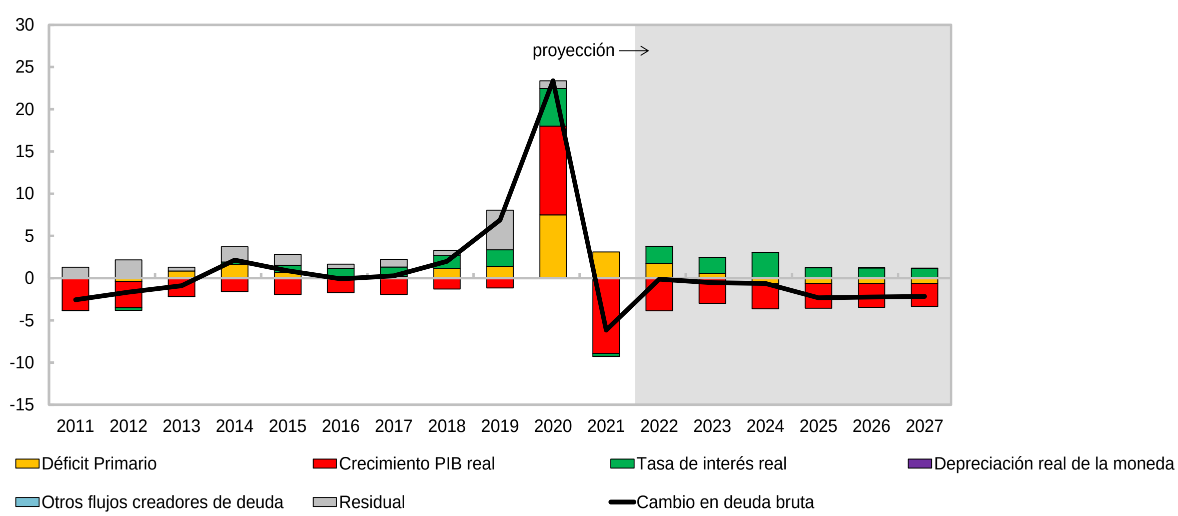
[21] The government reallocated US$2 billion in the Budget from investment projects that had not been initiated, travel expenses, payroll, and goods and services to fund additional spending in health and social protection.
[22] Public debt and fiscal (revenues and expenditures) data is obtained from the Ministry of Economy and Finance.
[23] The nominal GDP effect – the change in the debt-to-GDP ratio driven by the difference between the 2020 and 2019 nominal GDP, while holding the debt constant at the 2019 level – added 12.2 percentage points of GDP to the ratio.

Table 1 – Panama Public Debt Stocks and Flows: 2018-2021

	2018	2019	2020	2021
Total Public Debt Stock *(US$ Million)*	**25,666**	**31,018**	**36,960**	**40,488**
External Debt	**20,554**	**24,223**	**29,817**	**32,844**
Multilaterals	5,614	6,060	8,179	8,879
Bilaterals	183	169	161	203
Private Banks	518	452	351	251
Bonds	14,238	17,542	21,127	23,511
Domestic Debt	**5,112**	**6,795**	**7,143**	**7,644**
Total Public Debt Stock (% of GDP)	*39.5*	*46.4*	*69.8*	*63.7*
Changes in Public Debt Stock *(US$ Million)*				
New Borrowing	4,230	7,518	8,650	6,809
Amortization	(1,931)	(2,192)	(2,765)	(3,250)
Exchange rate and other adjustments	14	27	57	(31)
Total Net Change	2,313	5,353	5,941	3,528
Changes in Public Debt Stock *(% of GDP)*	3.6	8.0	11.2	5.5
New Borrowing	6.5	11.3	16.3	10.7
Amortization	(3.0)	(3.3)	(5.2)	(5.1)
Exchange rate and other adjustments	0.0	0.0	0.1	(0.0)
Total Net Change	3.6	8.0	11.2	5.5
Nominal GDP effect (p.p. of GDP)		(1.1)	12.2	(11.7)
Memo:				
Nominal GDP	64,928.3	66,787.9	52,937.8	63,605.1

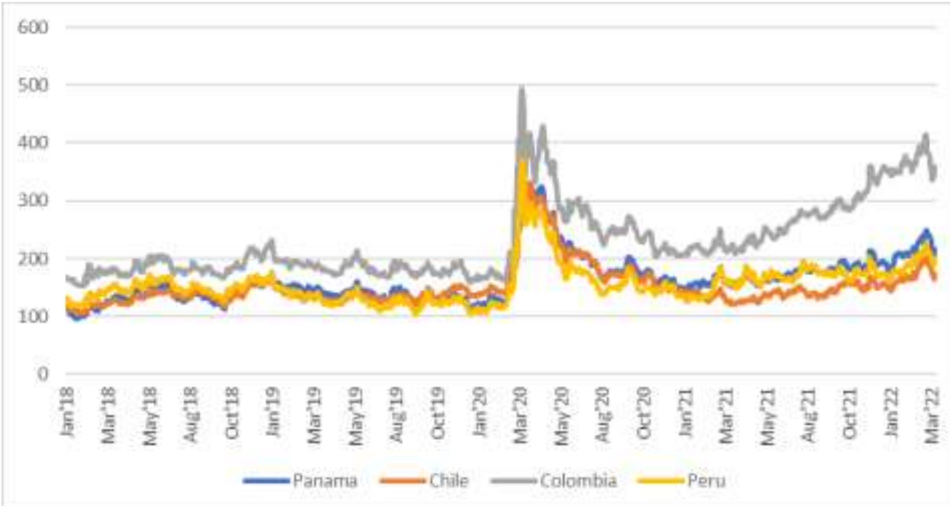
Source: Ministry of Economy and Finance

Figure 1 – Debt-Creating Flows: 2011-2027



Source: Ministry of Economy and Finance and World Bank Staff

Figure 2 – Sovereign risk spread (Emerging Markets Bond Index Basis Points): 2018-2022



Source: JPMorgan Chase

19. **Active and able debt management during the COVID-19 crisis improved the debt profile.** Panama's Debt Management Office has taken advantage of the good market conditions—such as abundant external liquidity and low interest rates due to accommodative monetary policy and expansionary fiscal policy in developed countries prevalent until 2021—to improve key debt risk indicators. The average cost of the debt went down by more than 50 basis points (from 4.62 percent in 2019 to 3.89 percent in 2021), and the average maturity increased by more than two years to 14 years**.** Approximately 82 percent of debt has fixed rates and 1.6 percent is denominated in foreign currency. In January 2022, Panama issued $2.5 billion in 11- and 41- year bonds with rates of 3.3 and 4.5 percent covering more than 60 percent of the 2022 annual financing needs.

MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. **Economic growth is expected to remain solid at 6.3 percent in 2022, underpinned by the good management of the COVID-19 pandemic and GDP growth carryover, despite the negative spillover effects from the war in Ukraine.** The pandemic has been well managed with high vaccination rates, which allowed the country to forgo new restrictions on mobility or business and has enabled the economy to continue to build on the large GDP base effect from 2020 and 2021, which supports a growth forecast of 6.3 percent in 2022, despite the adverse impact of the war in Ukraine. Other contributing factors to growth are new public investment (such as the extension of Metro Line 2 to Tocumen airport, the start of construction of Line 3), and the increase in the production of copper from Panama Cobre. Going forward, the introduction of PPP contracts, with WBG support, will allow for sustained infrastructure investment and higher FDI. While residential and office construction is not expected to rebound in the short term due to oversupply and more prudent stance from banks, the rebound in international tourism will further add to growth starting in 2022. Growth is expected to quickly converge to its potential level of around 5 percent, supported by Panama's competitiveness, favorable prospects for transportation, logistics, and tourism, FDI attraction and strong infrastructure investments, supplemented by a growing PPP pipeline.

21. Inflation will pick up and the current account deficit will increase, but both at moderate levels. Average inflation is expected to more than double from 1.6 percent in 2021 to 3.8 percent in 2022, driven by higher commodity (oil and food) prices, reduction in domestic energy subsidies in the second half of the year, and remaining supply chain disruptions associated with the pandemic. The current account deficit is expected to increase on the back of higher overall imports linked to increased economic activity and higher commodities' prices. Higher copper prices and production will add to exports, partially counterbalancing the increase in imports.

22. The GDP rebound, together with a gradual fiscal consolidation, is expected to stabilize and gradually reduce the debt ratio over the medium term. Revenues are expected to expand, benefiting from the GDP rebound, improvements in tax administration, more royalties and tax revenues from the mining sector, and growing Canal receipts[24]. Expenditures are expected to decline as a share of GDP as the government, reduces transfers and subsidies, attract private financing into needed infrastructure via PPPs, and adopts a more conservative fiscal stance to control the wage bill and the purchase of goods and services. The 2022 Budget has a conservative revenue increase of 3.6 percent over 2021 and a budget deficit of 4 percent of GDP, in line with the adjustment path set by the Fiscal Social Responsibility Law, which set declining limits to the deficit so that debt reaches 1.5 percent of GDP by 2025.

Figure 3 – Debt-to-GDP ratio under baseline scenario: 2011-2027

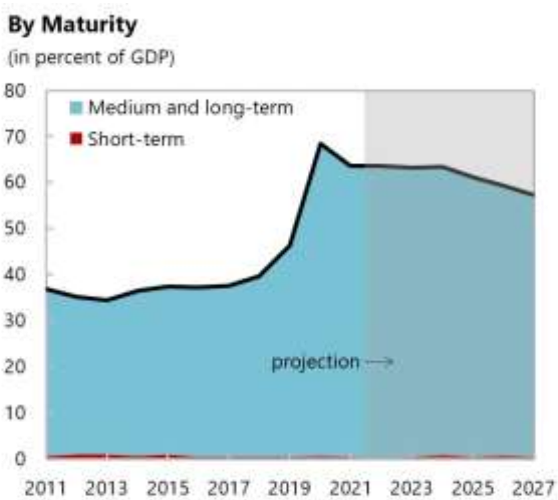
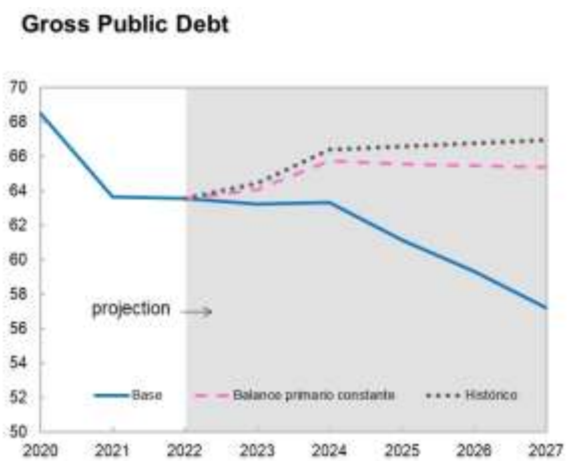


Figure 4 – Debt-to-GDP ratio shocks to baseline scenario: 2020-2027



Source: Ministerio de Economia y Finanzas and WBG staff calculations

23. Panama's interest bill is expected to decline over time, despite higher interest rates abroad. The projection of the interest payments shows a decline in gross financing needs from 2021 (9.8 percent of GDP) to 2022 (6.9 percent of GDP) and beyond. The forecast also takes into consideration that 82 percent of the country's debt has fixed rates, so it will not be affected by the current increase in interest rates. The forecast, however,

[24] Panama has one of the lowest tax administration efficiency in LAC, but it is addressing this gap with the support of a technical assistance loan with IDB. The baseline scenario does not consider tax policy reforms, which if introduced, could further increase revenues. Panama has renegotiated the royalties agreement with Panama Cobre and it expects to receive annual royalties payments worth US$375 million.

assumes an increase in the interest rates for new debt issuance for all debt instruments during the forecast period. For example, it's assumed that 30-year global bonds will pay 5 percent interest rates as opposed to the 4.5 percent Panama paid in January 2022 for a 41-year bond.

24. Public debt is deemed sustainable; it presents a declining burden and limited roll-over risks under different scenarios. The fiscal forecasts and debt sustainability analysis (DSA) was updated under the baseline scenario of a gradual fiscal consolidation.[25] The forecast also assumes a long-term growth rate of 5 percent, which is in line with historical data but higher than the years just before the pandemic. The DSA found that the public debt-to-GDP ratio is expected to remain stable between 2022 and 2024 and decline continuously after that (Figure 3). The DSA shows that the debt-to-GDP ratio would still decline under the constant primary balance assumption[26], but only after 2024. The historical scenario (with lower growth rate and higher primary deficit) would set the debt burden on a moderately increasing trend. All shocks would make the debt burden peak in 2024 but follow a declining trajectory after that. Only a large real GDP growth shock (average growth of -3.6 percent) is expected to set the debt on an unsustainable trajectory. Given the soundness of the financial sector and the relatively good standing of the State-Owned Enterprises (SOEs) not included in the DSA[27], no scenarios with liabilities from the banking sector or SOEs were considered in the simulation.

25. Panama faces important external and domestic risks but has taken important steps towards mitigating them. External risks include more prolonged and intense spillovers effects from the war in Ukraine, US monetary policy tightening, and terms of trade shocks. A prolonged, more intense war in Ukraine could reduce global growth, increase prices, affect the balance of payments and the ability of the country to obtain external private financing for its financing needs. A US monetary tapering can raise refinancing costs for emerging economies like Panama, but the country's debt management strategy and declining debt path helps to mitigate this risk. Finally, lower copper prices or higher oil prices can adversely impact Panama's current account, growth, and revenues.

26. Internal risk includes natural disasters and a slowdown in the pace of progress of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) reforms, and medium-term pressures to the fiscal accounts. On disasters, the recently approved DPF operation with a Cat DDO plays a significant role in strengthening Panama's financial protection capacity to better prepare for and respond to future disasters and climate change impacts.[28] FDI and international financial transactions can also be negatively affected if Panama does not continue to make progress to exit the Financial Action Task Force (FATF) grey list on AML/CFT, and the

[25] The IMF estimates that improvement in tax administration efficiency can yield cumulative revenue gains of up to 2 percentage points of GDP over the course of several years.

[26] The constant primary balance shock in the DSA assumes that primary balance will remain constant as in the first year of projection (2022) in the baseline scenario, which in this case would be a primary deficit of 1.6 percent of GDP.

[27] There are four SOEs not consolidated with the government's account and therefore not included in the DSA. These are the following: (i) the Panama Canal Authority (ACP), (ii) the National Highway Company (*Empresa Nacional de Autopista* -ENA), (iii) the National Energy Transmission Company (*Empresa de Transmisión Electrica* - ETESA); and (iv) the airport company (*Aeropuerto Internacional de Tocumen SA* – AITSA). ACP has US$2 billion in debt maturing by 2028 with multilateral and bilateral creditors and local bond maturing in 2035 worth US$446 million. Overall, ACP reduced its indebtedness from 2019 to 2020 (debt-to-EBITDA ratio from 1.6 to 1.2 in 2020). However, it also has a large contingent liability of US$3 billion related to a dispute with a contractor that if triggered would reduce the dividend payments to the government. AITSA has US$1.4billion in long-term debt with fixed interest rates as of June 2021 (US$575 million in bonds maturing in 2036 and US$862 million in bonds maturing in 2048) and US$60 million in short-term debt. AITSA's revenues, however, were severely affected by COVID-19 having declined from US$259 million in 2019 to US$89 million in 2020.

[28] Governments in the region are using all available financing options to deal with the COVID-19 pandemic social and economic impacts, including disaster risk financing instruments (contingency lines of credit, emergency funds, budget reallocations, international aid). These actions have drastically reduced the availability of such instruments to respond to future disasters, thereby not only increasing governments' financial exposure but also limiting access to liquidity to support their already overloaded emergency systems.

European Union (EU) list of non-cooperative jurisdiction for tax purposes. The government has been making progress on implementing the recommendations of the OECD's Global Forum and the FATF, with Bank support through this DPL series and support from other international agencies. Potential medium-term fiscal risks include the actuarial deficit of the pay-as-you go pension system**.** The government has convened a multistakeholder forum to explore options and develop a reform plan for 2022/23. A series of public consultations happened in 2021 and the stakeholders are now waiting for an updated actuarial assessment from the International Labor Organization (ILO), which is due mid-2022[29].

27. Panama's macroeconomic policy framework is sustainable and adequate for the proposed operation. The government has taken important steps to unwind transitory COVID-19 relate measures and meet the targets imposed by SFRL to put public debt on a downward trajectory. The government is working to address more structural fiscal weaknesses as it prepares a pension reform and improves its tax administration efficiency. The dollarization anchors prices, while the integration and good access to capital markets facilitates the financing of an eventual deficit in the current accounts. The macroeconomic risks are mitigated by the current PLL with the International Monetary Fund (IMF) and the country's ample access to capital markets. Given that part of Panama's fiscal imbalances are transitory and that its potential output growth is high, the country's macroeconomic framework is therefore deemed sustainable and adequate for the proposed operation.

BOX 1 – Effects of the War in Ukraine in Panama's Economic and Poverty Outlook

The war in Ukraine is affecting Panama's through trade (and inflation), fiscal policy, and financial markets channels. Overall, the war is causing a supply shock, which has led to spiking prices of oil, gas, coal, corn, wheat, and fertilizers. It has exacerbated uncertainty and volatility in financial markets, and is likely to constrain investment, fiscal policy, and poverty reduction.

The main transmission channels are trade (and inflation) and financial markets. Panama is a net food importer (2.5 percent of GDP) and food accounts for 22.4 percent of the CPI basket. For every 3.5 percentage point increase in food prices, poverty (5.5 dollars a day 2011 PPP) could increase in 0.2 percentage points at the national level, and 0.3-0.4 percentage points among rural areas and indigenous populations. Panama is a net oil importer but most of these imports are reexported through refueling the ships that pass through the Canal. Oil imports for domestic consumption account for less than 3 percent of GDP. Fertilizer imports from Russia and Ukraine account for only 0.1 percent of GDP. Tourism accounts for 10.6 percent of GDP, but only 0.5 percent of tourists come from Russia and Ukraine. Financial markets have showed increased volatility of portfolio flows, but Panama's sovereign risks have remained low and showed little volatility. On the other hand, Panama has large external gross financing needs, which exposes itself to financial market volatility.

Panama can also be affected through fiscal policy and the impact of global GDP. The shocks from the war might require the government to extend or increase energy subsidies or income support for vulnerable population, beyond what is already factored in the forecasts, potentially increasing fiscal deficit. For example, the extension of the additional energy subsidies by a month would increase expenditures by 0.02 percent of GDP, while a 20 percent increase in the budget allocation for the bono

[29] The baseline assumes no pension reform for 2022 and 2023 but gradual resolution after that.

solidario in 2022 would increase expenditures by 0.12 percent of GDP. Additionally, the temporary suspension of fuel taxes would reduce revenues by 0.02 percent of GDP per month. The effects of the war are reducing the projected growth for developed economies, which can affect Panama since 9.3 and 10.4 percent of its exports go to G7 countries and China respectively.

Table 2 - Panama: Key Economic Indicators and Projections: 2018 – 2025

	2018	2019	2020	2021e	2022p	2023p	2024p	2025p
Real Economy				***Growth rates***				
Real GDP	3.6	3.0	-17.9	15.3	6.3	5.0	5.0	5.0
Constributions:								
Consumption	*3.2*	*3.4*	*-18.5*	*8.5*	*6.4*	*5.0*	*4.9*	*4.9*
Investment	*0.9*	*0.0*	*-37.9*	*40.3*	*9.3*	*7.2*	*7.2*	*7.3*
Net Exports	*0.2*	*2.1*	*6.0*	*-1.4*	*-0.7*	*-0.3*	*-0.3*	*-0.3*
Imports	4.1	-3.3	-29.3	20.0	7.7	6.8	6.8	6.8
Exports	5.1	-0.1	-22.0	15.5	7.0	6.0	6.0	6.0
CPI (eop)	0.8	-0.4	0.0	1.6	3.8	2.7	2.1	1.5
Fiscal Accounts				***As percentage of GDP (unless otherwise noted)***				
Non-Financial Public Sector (NFPS)								
Expenditures	22.5	21.3	28.6	24.8	23.2	22.8	22.7	22.1
Revenues	19.6	18.5	18.3	18.1	19.2	19.7	20.4	20.4
Primary Balance	-1.1	-1.0	-7.6	-4.2	-1.6	-0.6	-0.1	0.7
Overall Balance	-2.9	-2.8	-10.3	-6.7	-4.0	-3.1	-2.3	-1.6
NFPS Gross Debt	39.6	46.4	69.8	63.7	63.6	63.2	63.3	61.1
Balance of Payments								
Current Account Balance	-7.6	-5.0	2.2	-2.2	-2.8	-2.9	-3.2	-3.9
Imports	44.5	40.9	32.1	38.6	38.7	40.4	41.5	44.0
Exports	44.0	41.6	36.4	42.1	43.0	44.7	46.0	48.3
Foreign Direct Investment, net	7.6	5.5	1.2	2.6	5.1	5.3	5.8	5.7
Gross Reserves (in billion US$, eop)	4.1	2.9	8.6	9.7	11.0	11.8	11.9	11.4
as % of GDP	6.4	4.4	16.0	15.2	16.2	16.4	15.9	14.2
Public External debt	31.7	36.3	56.3	51.6	51.9	51.6	51.6	49.4
Terms of Trade	-1.8	0.0	2.4	-0.4	-0.3	0.7	0.9	-0.2
Exchange rate (average)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items								
Nominal GDP (in million USD)	64,929	66,984	53,977	63,605	68,010	72,037	74,956	80,235

Source: Ministerio de Economia y Finanzas, INEC and WBG staff calculations

Table 3 – Panama: Balance of Payment Financing Requirements and Sources (US$ Million): 2018-2025

	2018	2019	2020	2021e	2022p	2023p	2024p	2025p
Financing requirements	5,994	4,736	-1,554	2,552	2,136	2,357	2,771	3,602
Current account deficit	4,967	3,333	-1,202	1,412	2,136	2,357	2,771	3,602
Net error and omissions	1,027	1,404	-352	1,139	0	0	0	0
Financing Sources	6,784	5,724	4,593	1,841	2,136	2,357	2,771	3,602
Short term capital inflows	23	22	11	4	22	25	24	34
Foreign Direct Investment, net	4,917	3,686	645	1,635	3,461	3,823	4,314	4,547
Portfolio Investment, net	373	3,055	1,808	-4,111	926	1,301	1,424	1,621
Government Borrowing, net	2,313	5,332	3,328	2,377	3,468	1,305	966	512
All other flows, net	-841	-6,371	-1,199	1,936	-5,741	-4,097	-3,958	-3,111
Change in reserves (+ increase)	633	1,227	5,550	-1,087	0	0	0	0
Financing Gap	158	-239	597	377	0	0	0	0

Source: INEC and WBG staff calculations

Table *4* – Panama: Fiscal Operations of the Non-Financial Public Sector: 2018-2025

	2018	2019	2020	2021e	2022p	2023p	2024p	2025p
Non-Financial Public Sector				***As percentage of GDP***				
Total Revenues (and grants)	**19.6**	**18.5**	**18.3**	**18.1**	**19.2**	**19.7**	**20.4**	**20.4**
Tax revenues	14.7	14.0	13.1	13.2	13.7	14.1	14.4	14.4
Taxes on goods and services	4.0	3.9	3.3	3.4	3.8	3.9	4.1	4.1
Direct Taxes	5.1	4.5	4.2	4.2	4.1	4.2	4.3	4.3
Social insurance contributions	5.6	5.6	5.6	5.6	5.8	6.0	6.0	6.0
Non-tax revenues	4.9	4.5	5.2	4.9	5.5	5.6	6.0	6.0
Canal Revenues	3.9	4.0	5.1	4.6	4.6	4.6	4.7	4.7
Expenditures	**22.5**	**21.3**	**28.6**	**24.8**	**23.2**	**22.8**	**22.7**	**22.1**
Current expenditures	15.9	15.9	21.5	19.2	18.4	18.2	18.3	17.8
Wages and compensation	4.8	4.7	6.4	5.6	5.3	5.2	5.3	5.4
Goods and services	1.2	1.1	1.6	1.5	1.5	1.4	1.4	1.4
Interest payments	1.8	1.9	2.6	2.4	2.4	2.4	2.2	2.3
Current transfers	8.1	8.2	10.9	9.7	9.2	9.1	9.4	8.8
of which:								
Pensions	*5.2*	*5.2*	*7.0*	*6.8*	*6.7*	*6.6*	*6.2*	*5.7*
Social Assistance	*0.3*	*0.3*	*0.2*	*0.2*	*0.2*	*0.2*	*0.1*	*0.2*
Capital expenditures	6.6	5.4	7.1	5.6	4.8	4.6	4.4	4.2
Overall Balance	**-2.9**	**-2.9**	**-10.3**	**-6.7**	**-4.0**	**-3.1**	**-2.3**	**-1.6**
of which: Primary balance	-1.1	-1.0	-7.6	-4.2	-1.6	-0.6	-0.1	0.7
NFPS Financing	**3.7**	**6.3**	**6.9**	**6.7**	**4.1**	**3.3**	**2.2**	**1.7**
External (net)	3.6	5.7	6.3	5.9	3.5	2.8	1.7	1.6
Domestic (net)	0.2	0.6	0.6	0.8	0.6	0.5	0.5	0.1
Memorandum items								
Gross Public Sector Debt	39.6	46.4	69.8	63.7	63.6	63.2	63.3	61.1

Source: Ministerio de Economia y Finanzas and WBG staff calculations

2.3. IMF RELATIONS

28. Panama has actively use IMF's instruments to mitigate risks. The IMF Board of Directors approved $515 million under the Rapid Financing Instrument in April of 2020 and a PLL for US$2.7 billion equivalent, valid for two years, in January of 2021. The PLL is a precautionary facility which Panama treats as an insurance against extreme shocks (e.g., further deteriorations due to COVID-19 or the impact of the war in Ukraine). Panama qualified for the PLL due to its sound economic fundamentals, long track record of good economic performance and policy implementation, and its commitment to maintain such policies in the future. The PLL complements this DPL series due to its focus on facilitating Panama's exit from the Financial Action Task Force (FATF) grey list, strengthening data adequacy, improving public financial management, and preparing the economy for the post-pandemic recovery. The PLL had its first successful review in August 2021. The second review is expected once the government advances further on the implementation of adopted measures related to the AML/CFT agenda, considered in a structural benchmark. Panama has met all quantitative targets set by the PLL.

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)[30] highlights that Panama exists in five different typologies: (i) modern; (ii) middle-class; (iii) suburban; (iv) rural and agricultural; and (v) Indigenous (*comarcas*). The top governmental priorities presented in the PEG are focused on reducing poverty and closing the gaps between the five 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.[31]

30. The COVID-19 crisis has led the government to reprioritize its focus areas to respond to the health emergency, to mitigate the pandemic's economic impact, and to support measures to build back better. On March 13, 2020, through Cabinet Decree 11, the government declared a "National State of Emergency," putting in place a series of steps to prevent the spread of the disease. A package of social and economic measures was quickly adopted to provide relief to families, workers, and firms affected by the pandemic. This received broad political support. The State of Emergency ended in December 2021 and most of the initial social and economic response measures have been adjusted and complemented with additional policy actions to reflect the current situation in the recovery stage. Annex 5 summarizes the main social and economic response and recovery measures.

[30] Article 16 of Law 34 from 2008 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.*"
[31] The 300 poorest municipalities were identified using a multidimensional metric of poverty that combined both income and qualitative poverty measures (including education as one of the dimensions).

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

31. **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 proposed DPF is the second in a programmatic series of two loans organized around three pillars.** The first pillar aims to protect human capital during the COVID-19 crisis and to strengthen institutions with a view to fostering human capital accumulation during the recovery. The second pillar focuses on strengthening institutions for a more transparent and fiscally sustainable economic recovery. Lastly, the third pillar concentrates on strengthening institutions to support a more inclusive and environmentally sustainable economic recovery.

32. **The reforms supported by this operation will help protect the human capital levels of Panama's most vulnerable social groups from substantial and lasting negative impacts from the pandemic.** They will also help steer the economy to build back better through critical policy and institutional reforms, transforming this crisis into an opportunity. These outcomes are expected to be achieved by supporting a combination of policy measures to address Panama's most pressing needs. Examples include ensuring adequate support to people still affected by the pandemic through the emergency transfer program, *New Panama Solidarity Plan (NPPS)*, which is being complemented with a labor market reinsertion scheme during the recovery phase, and support to implement the provision of remote health services during the pandemic and beyond. The proposed DPF also supports structural reforms such as integration of ICT into the education sector, anti-money laundering and tax evasion actions, improvements to the PPP framework, and the implementation and operation of the greenhouse gas (GHG) emissions trading system. In this way, this operation will support Panama's response to the COVID-19 crisis and enhance its longer-term development objectives, directly contributing to global public goods and strengthening institutions for sustainable social and economic development.

33. **This DPF series aligns with the government's objectives by supporting four of the five strategic pillars included in its PEG 2019-2024, as well as reinforcing its COVID-19 crisis response and recovery efforts.** The proposed operation supports, under Pillar A[32], the PEG 2019-2024 pillars on "Poverty and inequality reduction" and on "Education, science, and technology." It does so through measures that help strengthen the social protection system and integrate ICT into the education system to accelerate learning, especially among highly vulnerable individuals. This operation also supports, under Pillar B, the PEG 2019-2024 pillars on "Governance" and "Competitiveness and job creation." It achieves this through policy measures to strengthen public finances and fiscal responsibility, transparency and accountability, and infrastructure and investment through PPPs. Lastly, it supports, under Pillar C, the PEG 2019-2024 pillars on "Poverty and inequality" and "On competitiveness and job creation." This support comprises prior actions to improve agricultural productivity and food security, to include IP, and to adopt climate change adaptation and mitigation measures. This operation also supports policies that mitigate the social and economic impacts of the COVID-19 crisis through short- and medium-term

[32] The pillars of the proposed operation are: A) Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery; B) Strengthening institutions to support a more transparent and fiscally sustainable economic recovery and C) Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery.

policy measures aimed at improving service provision of health, education, and social protection interventions.

34. **This DPF builds on the program supported by DPF 1, reflecting strong government commitment in the areas covered by the operation.** Most of the indicative triggers identified at the time of DPF1 approval have been met and upgraded to prior actions (PA) for DPF 2. Triggers 1 and 10 were adjusted to reflect the strengthened reforms related to the provision of health services and towards the implementation of the carbon market. Trigger 5 was fully met, but it was not upgraded to PA due to its operational nature. The matrix includes a new, strong policy action related to Panama's climate adaptation efforts. Trigger 9 is the only one to have been substituted due to delays in implementation. This trigger is now expected to be approved by 2023. Table 4 compares the original indicative triggers proposed in DPF1 with prior actions in DPF 2, explaining changes when relevant.

Table 4. Status of DPF2 triggers and proposed changes.

Original Indicative Trigger (OIT) proposed in DPF 1	Prior Action for DPF 2	Comments
Pillar A: Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery		
OIT #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.	PA #1. The Borrower has enacted a law establishing guidelines for the development of remote health services (telehealth) to improve access in the provision of healthcare services.	Panama adopted and periodically updates its vaccination plan, aligned with the proposed indicative trigger. The implementation of the plan and COVID-19 vaccination campaign are being supported through the Panama COVID-19 emergency response project (P173881) and its additional financing (P178011). The new proposed policy measure builds on COVID-19 response focusing on strengthening institutional capacity to ensure an efficient and resilient provision of health services beyond the pandemic.
OIT #2. The Borrower has approved the legal framework to integrate ICT into the education system to accelerate learning, particularly among poor and highly vulnerable households.	PA #2. The Borrower has approved the legal framework to integrate information and communication technologies into the education system to accelerate learning, particularly among poor and highly vulnerable students.	Trigger was upgraded to prior action, with minor editorial changes.
OIT #3. The Borrower has adopted measures to transition from Plan *Panama Solidario* (*PPS)* to a temporary social protection program targeted at those still experiencing poverty or vulnerability.	PA#3: The Borrower has taken measures to transition from *Panama Solidario* to a temporary social protection program targeted at individuals who are still in vulnerability as a consequence of the COVID-19 crisis.	Trigger was upgraded to prior action, with minor editorial changes.
Pillar B - Strengthening institutions to support a more transparent and fiscally sustainable economic recovery		
OIT #4. The Borrower has further taken	PA #4. The Borrower has taken measures to	Trigger was upgraded to prior

Original Indicative Trigger (OIT) proposed in DPF 1	Prior Action for DPF 2	Comments
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 is updated in as timely a fashion as possible, and that sanctions for non-disclosure and/or delayed disclosure are dissuasive; (b) approving the first Action Plan for the supervision of designated non-financial business and professions (DNFBP), 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 to strengthen sanctions for non-compliance with exchange of information requests.	further enhance the transparency of business operations by: (a) establishing measures for the verification, on a risk-based approach and update of information entered in the UBO registry as well as dissuasive administrative sanctions for non-disclosure and/or delayed disclosure; (b) amending legislation to improve access in the Borrower's territory to accounting records of offshore business operations and strengthen administrative sanctions for non-compliance with exchange of information requests.	action, with some adjustments that increase the strength of the measure. While all elements of the original trigger have been met, the PA drafting focuses on verification, supervision, and compliance mechanisms with stronger legal weight (decrees and laws).
OIT #5. The Borrower has: (i) issued regulations supporting the roll-out of a new, latest-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 Integrated Financial Management System (ISTMO) the accounting balances of bank accounts of all central government entities and the Treasury's General Account, (b) reporting to 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.	No prior action included in this topic.	The reform agenda underlying OIT#5 was fully met, but not upgraded into a prior action. The Borrower upgraded its procurement system to PanamaCompra 3, supporting its roll-out to all government agencies and issuing mandatory forms requiring bidders to comply with sustainable procurement practices. The Borrower also produced the 2017 (initial) consolidated financial statement following the steps determined in the trigger and submitted it to the Comptroller General's Office for their audit process prior to publication. This trigger was considered too operational in nature for the DPF. Its implementation will continue to be monitored by its result indicator.
OIT #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	PA #5. The Borrower has further strengthened the PPP regulatory framework by approving policy guidelines and methodologies for the: (a) evaluation, assignation and valorization of PPP risks; and (b) the analysis of value for money of	Trigger was upgraded to prior action. The Borrower approved the regulatory framework associated with the PPP Law (OIT6a) in December 2020,

Original Indicative Trigger (OIT) proposed in DPF 1	Prior Action for DPF 2	Comments
management, and fiscal risks to design, procure, and maintain public infrastructure more efficiently, save fiscal resources, and increase private investment.	PPPs.	which is significantly more than 12 months from the expected approval of the proposed DPF. Following best practices, the final prior action focuses only on the most recent elements of the full package of regulations implemented.
Pillar C: Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery		
OIT #7. The Borrower, through the National Committee for Family Farming and the Ministry of Agriculture, has established and funded the Family Farming National Fund to address barriers for family farmers (particularly women and IPs) and to help them benefit from financial and technical support to improve the productivity of their agricultural land and increase their food and nutritional security. OIT #8. The Borrower has approved a legal framework establishing actions for the development of IP in Panama through participatory processes, in line with international good practices.	PA #6. The Borrower has supported the integral development of rural vulnerable groups, with a particular focus on IP, through: (a) the approval of a national legal framework establishing actions for inclusion of indigenous peoples' priorities in public investment planning, implementation and monitoring, through participatory processes and in line with international good practices, and promoting local economic development opportunities; (b) the issuance of a regulatory decree to the Family Farming Law, including requirements to ensure that the poorest family farmers, and particularly women, youth and IP are beneficiaries of public support in the agriculture sector.	This prior action combines OIT #7 and OIT #8, on increasing inclusiveness, especially of rural vulnerable populations, such as IP. This combination allows other policy measures included under Pillar C to reflect the stronger focus on a greener economic recovery.
	PA #7. The Borrower has created the National System of Data for Adaptation to Climate Change, mandated the development of the National System of Monitoring, Evaluation and Report of Adaptation, taken measures for the establishment of the Climate Change Adaptation Fund and created the national program Build your Resilience.	This prior action is new to the series. It reflects progress in areas that are relevant to the operation but were not foreseen during the design of DPF1. This policy reform on adaptation to climate change highlights a stronger focus on environmentally sustainable economic recovery, complementing the Prior Action in DPF 1 which, inter alia, establishes the legal basis to facilitate the reduction of pressures on natural resources. The social inclusion aspect is still prevalent as sustaining natural resources provides livelihoods and sources of income for local indigenous population.
OIT #9. The Borrower has reformed energy	PA #8. The Borrower has advanced the	The reform on energy subsidies

Original Indicative Trigger (OIT) proposed in DPF 1	Prior Action for DPF 2	Comments
subsidies by reducing and targeting fossil-fuel subsidies and steering subsidies towards cleaner alternatives.	decarbonization agenda by enacting a law that incentivizes electric mobility for ground transportation.	has been delayed as attention has been diverted to crisis response and recovery efforts. The approval of the reform is now expected in 2023, which goes beyond the timeline of the operation. Instead, the prior action supports a law that incentivizes electric mobility, which represents an important step towards reducing the country's carbon footprint.
OIT #10. The Borrower has released preliminary guidelines to gradually implement and operate the initial phase of the national GHG emissions trading system. Through the Secretariat of Energy, it has also approved the Energy Transition Agenda defining policy actions to achieve the Sustainable Development Goals and the Nationally Defined Contributions (NDC).	PA #9. The Borrower has issued a decree establishing the objectives, requirements, and a governance structure for the gradual and progressive development of the domestic carbon market.	The first part of the prior action reflects the trigger, but with minor editorial changes. The second part of the prior action was met with the approval of the Energy Transition Agenda (ETA). Given the technical and operational nature of the ETA, it was not upgraded as prior action.

35. **The DPF incorporates lessons learned from the Bank's prior engagement in Panama.** To achieve the expected results, lessons learned have been incorporated in the design of this operation by: (i) ensuring the government's strong ownership of the reform agenda, supporting policy initiatives directed to high-priority issues, such as responding to the COVID-19 emergency and strengthening institutions; (ii) building on previous reforms supported by the World Bank Group, such as those backed by the Programmatic Shared Prosperity DPF (P166159), based on long-standing engagement and a strong focus on the most binding constraints; and (iii) complementing lending not only with a broader program of technical assistance to support implementation of the wider reform agenda and to respond to client needs and demands in a context of high uncertainty, but also through a 'one World Bank Group' approach that shares complementarities with the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

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

33. **Pillar A addresses critical short-term challenges to protect human capital during the pandemic and supports a set of reforms to promote human capital development by strengthening the delivery of health, education, and social protection benefits and services.** Under DPF1, this pillar focused primarily on short-term policy measures to protect human capital during the pandemic through: the approval of regulations to improve

access to generic medicines and reduce out-of-pocket expenses for the users of the public health system at a critical juncture; the establishment of curricula prioritization and implementation of temporary distance-learning programs to mitigate learning losses during school closures; and the adoption of a large-scale emergency transfer program (PPS). DPF2 supports short-term policy measures and structural reforms with a view to: supporting policy actions in the health sector to improve prevention, diagnostic, and treatment of health conditions through remote health services (telehealth); upgrading and modernizing the education system through digital transformation; and protecting the poor and vulnerable still affected by the pandemic through transfers and support for labor market inclusion, through the NPPS. The reforms supported are also intended to deliver significant positive climate and environmental benefits through direct reduction in the carbon footprint of the health and education sectors, while at the same time improving resilience to shocks such as intense storms, floods, and droughts.

DPF2 Prior Action 1: The Borrower has enacted a law establishing guidelines for the development of remote health services (telehealth) to improve access in the provision of healthcare services.

Results Indicator 1: Health regions with strengthened institutional capacity for the provision of healthcare services (number)

36. Rationale. Panama's health system has been under pressure during the pandemic due to the necessity of providing access to both pandemic-related and regular health services. Panama has registered one of the highest COVID-19 infection rates in the LAC region, and it achieved a high COVID-19 vaccination rate (as of May 25, 2022, 72.9 percent of the total population was vaccinated with at least two doses).[33] While the vaccination campaign is well advanced, attention has turned more recently and more systematically to strengthening regular health services. COVID-19 posed disruptions in basic healthcare services such as health consultations and routine check-ups, including the prescription of medicines.[34] More so across vulnerable populations: people with chronic conditions, pregnant women, and children requiring regular health services faced issues of access due to physical distancing measures and fear of infection by the COVID-19 virus. Moreover, even before the COVID-19 pandemic, Panama's access to quality healthcare services needed improvements.[35] Access to medicines was affected by frequent shortages, copayments requiring high out-of-pocket expenses and limited availability of high-quality generics. Considering that disruptions in health care service provision would become more frequent because of climate change impacts, ensuring adequate access to health services, is key to improving the resilience of the health system. This will enhance the health system's preparedness for future shocks, including extreme weather events attributable to climate change, pandemics, and others. This is particularly relevant to Panama, which is affected by climate-related threats, such as intense summer rains, intense periods of drought, and sea level rise, that hamper access to regular health services.

37. Reform implementation. Prior Action 1 in DPF1 supported the enactment of Law No. 109 (National

[33] WHO (2021). WHO Health Emergency Dashboard. https://covid19.who.int/region/amro/country/pa.

[34] For example, a WHO survey on the effect of COVID-19 in 155 countries showed widespread disruption in health services for noncommunicable diseases: 53 percent of the countries reported partially or completely disrupted health services for hypertension treatment; 49 percent for diabetes; 42 percent for cancer. Source: WHO (2020). COVID-19 significantly impacts health services for noncommunicable diseases. Retrieved at *https://www.who.int/news-room/detail/01-06-2020-covid-19-significantly-impacts-health-services-for-noncommunicable-diseases*.

[35] Rios-Zertuche, D., Zúñiga-Brenes, P., Palmisano, E., Hernández, B., Schaefer, A., Johanns, C. K., & Iriarte, E. (2019). Methods to measure quality of care and quality indicators through health facility surveys in low-and middle-income countries. International Journal for Quality in Health Care, 31(3), 183-190

Pharmaceutical Policy), dated November 12, 2019, and Law 97 dated October 4, 2019, and their regulations. Among other outcomes, this new legal framework promoted access to interchangeable generic medicines, hence facilitating a reduction of out-of-pocket expenses for users of the public health system. Despite the disruptions to the supply chains caused by the pandemic, the availability of registered interchangeable generic drugs increased by 11 percent between May 2020 and April 2021. This increase in generic drugs has likely translated into greater access to these drugs for the population, helping patients to get affordable treatment for different conditions, including but not limited to COVID-19.

38. Substance of the Prior Action. Law No. 203, published in the official gazette on March 18, 2021, establishes guidelines for the development of remote health services (telehealth). The Law aims to improve access, continuity, and quality of health care service provision, supporting the implementation of an additional service delivery mechanism and the strengthening of institutional capacity of the public healthcare sector, improving its resilience to climate impacts and reducing carbon emissions. The Law includes guidelines for the development of key telehealth activities and instruments, such as electronic prescriptions and capacity building, as well as provisions on prior informed consent and data protection for beneficiaries, in line with international best practices. As such, the Law is a key enabler for the development of teleconsultations in Panama and a crucial step to set up the appropriate governance and regulatory framework, which are conditions for a successful implementation. Telehealth complements face-to-face consultations, expanding the care provided for conditions such as chronic diseases and COVID-19. Equity considerations are being integrated into the implementation of the program: regions with less connectivity are not left behind but are brought into the program gradually, with adapted means.[36] Furthermore, telehealth adds an additional delivery mechanism that can contribute to promote inclusion and equity in access to services, as it benefits patients that could otherwise encounter barriers in accessing care because of geographical reasons or other restrictions, and potential risks (e.g., physical distancing measures and fear of COVID-19 infection). Law No. 203 on telehealth not only seeks to reduce direct (i.e., morbidity and mortality) and indirect impacts of COVID-19, such as disruptions to timely provision of health services nationwide, but it is also a step forward for the digital health transformation process in Panama, beyond this pandemic. The provision of health services through telemedicine is envisioned to become an integral part of the service delivery system and contribute to accelerate progress in human development outcomes. Moreover, it can also be critical in the aftermath of a natural or climate-driven disaster, to ensure continuity of services, and to contribute to the reduction of the carbon footprint in the health sector.[37]

39. Expected results. The expected results of the prior actions supported by the DPF series are strengthening the institutional capacity for the provision of health services in the health regions, through the enablement of telehealth services and the promotion of interchangeable generic medicines. Health regions are the sub-national (regional) entities through which the Ministry of Health (MINSA) operates. A health region is considered to have improved institutional capacity when the following conditions have been met: (i) total number of tele-consultations services are provided to at least 1,200 persons; and (ii) the number of interchangeable generic drugs acquired by the health region increased compared to 2019. The data source for these sub-indicators is administrative data from MINSA. The number of Health regions with strengthened institutional capacity for the

[36] These regions will have access to teleconsultations (e.g., voice) and later through video-consultations.
[37] Purohit, A., Smith, J., & Hibble, A. (2021). Does telemedicine reduce the carbon footprint of healthcare? A systematic review. Future Healthcare Journal, 8(1), e85; and Doarn, CR and Merrell, RC (2014). Telemedicine and e-Health in Disaster Response. *Telemedicine Journal and E Health*: 2014 Jul 1; 20(7): 605–606.

provision of healthcare services is expected to increase to 10 (out of 15) by June 2023.). The World Bank (WB) is supporting the progressive implementation of the tele-consultations programs towards more remote health regions through the Panama COVID-19 Emergency Response Project and its additional financing (P173881 and P178011). Furthermore, the prior action supported in this DPF is expected to reduce the carbon footprint of the health sector and increase its resilience to climate change impacts, providing positive climate co-benefits. For instance, Purohit et al. (2021) show in a systematic review that telemedicine reduces the carbon footprint of healthcare, primarily by reducing transport-associated carbon emissions, with carbon footprint savings between 0.70-372 kg CO2 per consultation; and Doarn et al. (2014) highlight that, while telemedicine may not prevent climate-related events, it will surely be a tool in responding for the public good.[38]

DPF2 Prior Action 2: The Borrower has approved the legal framework to integrate information and communication technologies into the education system to accelerate learning, particularly among poor and highly vulnerable students.

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 2022-2023 (unique users, at least one access per month) (number).

40. Rationale. Prior to the COVID-19 shock, Panama was already facing a "learning crisis." Seven out of 10 students could not read and understand a simple text by the time they ended primary education, with large disparities across the regions.[39] These learning deficiencies persist as students advance in their education trajectories. The Program for International Student Assessment - PISA shows that the typical 15-year-old student in Panama is almost a year of schooling behind the average student in LAC and three years of schooling behind the average student in an Organization for Economic Co-operation and Development (OECD) country. The pandemic left almost one million students out of school in Panama for almost two years, forcing the government to implement distance learning education for some time to mitigate learning losses. Moreover, Panama was among the top six countries in the world that kept schools closed for the longest due to the pandemic (UNICEF, 2021).This temporary closure of schools is expected to have translated into substantial learning losses and a widening of learning gaps, accompanied with a significant reduction in the expected lifetime earnings of students affected.[40] Lastly, extreme weather events attributable to climate change are expected to make school closures more frequent in some areas, improving the institutional capacity to ensure education services can be accessed even in the event of extreme weather events and natural disasters, is key to improve resilience of the education system and to protect the human capital of vulnerable groups in Panama.

41. The low learning outcomes and large learning gaps in Panama are explained by different factors. From the supply side, the education system provides very little educational resources and teaching materials to support the learning process. Only 24 percent of secondary schools have access to education platforms or technologies, with significant heterogeneity across the country (PISA 2018). Teacher training is focused on the provision of short courses at the beginning of each school year, which have no direct relation to the academic challenges or

[38] *Ibid.*
[39] For instance, in Los Santos province, only four in 10 children could not read and understand a simple text by the time they ended primary education, while in the Indigenous comarca of Embera nine in 10 students fell short of this milestone.
[40] 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.

pedagogical priorities established in the national educational policies. From the demand side, families have relatively low access to internet and digital devices, and disparities in access across income groups are very large. Overall, less than 7 percent of households in Panama have fixed internet connectivity, and among poor households, only 37 percent have access to mobile internet. Moreover, 11 percent of poor households have access to a digital device at home vis-à-vis the universal access to mobile phone and television by the middle-class households. Lastly, barriers to the implementation of distance learning models hinder resilience to natural disasters and affect the potential to reduce Panama's carbon footprint.

42. Reform implementation. To mitigate learning losses during the pandemic, the Ministry of Education (MEDUCA) issued a resolution approving the criteria for curriculum prioritization for all subjects offered in pre-primary, primary, lower secondary, and secondary education for the 2020 school year. It also passed a resolution approving the temporary implementation of distance learning programs and setting forth the main requirements for said type of education (Prior Action 2 for DPF 1). This resolution regulated the temporary implementation of distance education in its various modalities, including blended, virtual, and face-to-face. The educational material used for distance education included books, manuals, notes, and study guides, among others, both in print and electronic format. This resolution also mandated that the selection of educational material take into consideration the characteristics of the target population. A survey carried out by MEDUCA to the regional directorates in June 2020 showed that they used a combination of education material for providing distance learning, including radio, television, WhatsApp, and web pages. During the emergency, MEDUCA coordinated with a variety of non-profit institutions to explore different virtual educational platforms for online education, mainly to provide support for students and to give training courses to nearly 30,000 teachers. In addition, MEDUCA also negotiated free access to mobile internet and data plans to access all the material and platforms produced for the provision of distance learning.

43. In addition to the reform supported through this series, the government implemented the Accelerated Learning Program (*Programa de Aprendizaje Acelerado*), established by Executive Decree # 153 of February 26, 2021, which targets students who could not connect to the virtual learning classes during the closure of schools so that they can get up to date on their learning levels. This remedial education program is focused on prioritizing foundational learning among poor and vulnerable students and those that were left behind. The government also implemented a program called Everyone Learns How to Read (*Aprendamos Todos a Leer*), which is focused in ensuring that all students ending primary school are fully capable of reading and understanding what they read. Another important initiative during the closure of schools was the development of PPPs with universities, non-governmental organizations (NGOs), Foundations, and others to develop educational digital content and to facilitate the access to educational platforms. Lastly, the government also developed the Solidary Education Plan (*Plan Educativo Solidario*) with the four telecommunications companies that operate in the country to facilitate the internet connectivity of students from public schools through the provision of free mobile internet to access educational content.

44. Substance of the Prior Action. The Digital Equity Law (*Ley de Equidad Digital*), published in the Official Gazette on April 6, 2022, seeks to enhance equity in the educational system. It achieves this through the provision of flexible and pertinent teaching and learning models, with innovative delivery forms that facilitate the acquisition of skills and competences throughout the educational trajectories of students, which will be critical to accelerate learning recovery and improve educational outcomes. To deliver this, the law proposes five measures. First, the implementation of a large-scale technological and digital transformation, to support effective student learning. Second, the provision of the necessary technological infrastructure for the educational system, including energy, connectivity, digital devices, content, and platforms to act as a learning acceleration tool to support students. Third, the consolidation of the progress made during the pandemic in terms of educational continuity with the development of the ESTER platform,[41] the prioritized curriculum, and the development of educational materials. Fourth, the facilitation and modernization of the initial teacher and in-service teacher training systems to guarantee their relevance and mastery of the new teaching-learning model in accordance with the technological and digital transformation. Lastly, the consideration of the differentiated needs of vulnerable students, including students with disabilities. The approval of the Digital Equity Law will contribute to overcome barriers for the implementation of distance learning modalities. This will be critical to provide continuity to the education services in the aftermath of natural disasters and emergencies.[42]

45. Expected results. The main expected impact of the implementation of the Digital Equity Law during the timeline of this operation is to improve the access to education technologies among the most vulnerable students. At the same time, the implementation of this Law is expected to contribute increasing resilience and reducing carbon emissions related to the provision of educational services. The impact of the implementation of this law will be measured in this operation by the number of students in public schools in *Plan Colmena* who use at least one of the education technology solutions provided by the government to support learning during the 2022-2023 school year (i.e., unique users, at least one access per month). The target is reaching at least 50,000 students by the end of the school year.[43] Beyond the timeline of this operation, it is expected that the Digital Equity Law will contribute to accelerate learning, revert learning losses experienced during the pandemic, and reduce the gaps in access and quality of education in Panama.

DPF2 Prior Action 3: The Borrower has taken measures to transition from *Panama Solidario* to a temporary social protection program targeted at individuals who are still in vulnerability as a consequence of the COVID-19 crisis.

Results Indicator 3: Population aged 18 or older covered by a temporary social protection program (percentage).

46. Rationale. The closing down of businesses and social distancing protocols adopted in Panama as a response to the COVID-19 crisis significantly affected households' income, especially for individuals who are poor and vulnerable as they tend to be in occupations that cannot be performed from home.[44] Women have also been disproportionately affected by the COVID-19 crisis (De Paz et al, 2020). In April 2020, the government quickly launched the PPS, a large-scale temporary transfer program designed to mitigate the negative effects of the crisis on vulnerable groups. This was supported under DPF1. As with most countries, Panama initially adopted a broad targeting approach for the PPS, albeit at the cost of inclusion errors. The duration of the program was

[41] The ESTER platform is a learning platform aimed at increasing student learning in an amenable manner and a virtual space where teachers and students can interact. The platform allows access from any mobile device.
[42] Versteijlen, M, F. Perez, Ma. Janssen, A. Counotte (2017) finds that student and staff travel accounts for between 40 and 90 percent of emissions of education institutions. Thus, distance learning can significantly contribute to decrease the carbon impact of the sector.
[43] 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.
[44] Mongey et al. (2020) finds that workers in this category are generally less educated, have fewer assets, and are more economically vulnerable. These individuals with lower incomes are more likely to be exposed and vulnerable to climate change impacts and to have a lower ability to cope with shocks, including natural disasters (Hallegate et al., 2017).

linked to the end of the National Health Emergency, which meant that once the state of National Emergency was lifted, the PPS would end as well. The National Health Emergency and PPS ended in December 2021. While economic recovery is underway, the effects of the crisis are still being felt by the unemployed, workers in the informal sector and vulnerable households not covered by regular social assistance programs. As a result, the government decided to establish the NPPS to extend the cash and in-kind support to vulnerable people still affected by the pandemic, with more stringent eligibility requirements than PPS, and support their labor market inclusion. Both programs, PPS and NPPS, aim to mitigate the economic consequences of the pandemic on poverty, protect human capital, and prevent and mitigate negative coping strategies that could result in an increase of malnutrition and child labor, school dropout, and the distress sale of assets.

47. Reform implementation. Under Prior Action 3, the DPF1 supported the PPS, which included the following mitigation measures: (i) digital food vouchers (Vale Digital) and physical food vouchers targeted at poor and vulnerable individuals in urban and peri-urban areas, including low-salary formal workers who were suspended and informal workers of suspended activities; and (ii) food baskets targeted at vulnerable individuals living in Indigenous territories, rural areas, and areas where it was not feasible to distribute the digital and physical food vouchers. The value of the digital and food voucher differed from the market value of food baskets due to the differences in food cost between urban and rural areas.[45] In 2020, during the hardest period of confinement, the program reached seven out of ten Panamanians and 74.6 percent of those under the poverty line of $5.5 (2011 Purchasing Power Parity) per capita per day.[46] As beneficiaries gradually recovered their sources of income and no longer required emergency assistance, the government reformed PPS in 2021 to reduce leakages and increase efficiency, and introduce training and community work conditionalities to improve the employability of beneficiaries during the recovery phase. In 2021, the government effectively introduced additional eligibility criteria to limit the benefit to only one eligible member of the household[47] and excluded households with public-sector employees, with properties worth more than $250,000, or that had a monthly energy consumption above 400KWh per month. These measures resulted in increased spending efficiency while maintaining income protection for vulnerable households. The coverage[48] in the richest quintile dropped from 49.3 percent to 28.8 percent, while the coverage of the poorest quintiles was maintained to a large extent (i.e., 73.3 percent coverage of the poorest quintile in 2021 compared to 74.6 percent in 2020, and the bottom 40 percent of the income distribution at 70.8 percent in 2021 compared to 77.1 percent in 2020). In July 2021, the government introduced a conditionality for all beneficiaries of digital food transfers; namely, that beneficiaries needed to complete community work[49] or an online course via the ESTER learning platform, managed by the National Institute of Professional Training for Human Development (*Instituto Nacional de Formacion Profesional y Capacitación para*

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[45] The benefit of both the digital and physical food voucher was increased from the equivalent of $80 to $100 per month in the second month of program implementation and to $120 in February 2021. The monthly market value of food baskets increased from $45 at the end of 2020 to $64.3 in the second half of 2021.

[46] Middle-income and bottom 40 percent income populations were amongst the populations with highest coverage (80.7, and 77.1 percent, respectively). The program covered more than 73 percent of those in informal employment, urban and indigenous populations.

[47] As part of the effort to implement the new targeting criteria, the Governmental Innovation Agency (AIG) conducted a survey in January 2021 of all digital food transfers' beneficiaries in order to capture the household composition and socioeconomic information. This allowed the creation of a household registry identification number, which is a potentially powerful tool for future household identification efforts.

[48] Defined as the share of the population living in households where at least one member receives the transfer.

[49] MIDES, in coordination with local councils, managed the identification of community work in areas where Vale Digital was implemented. AIG developed an instrument to assign each beneficiary to community work, prioritizing the area selected by the beneficiary.

el Desarrollo Humano, INADEH).[50] From September to December 2021, most beneficiaries opted for monthly on-line courses. The PPS, implemented from April 2020 to December 2021, was the single most important intervention to mitigate the economic consequences of the pandemic on poverty, reducing it in over 4 percentage points in 2020 and 2021, and reaching a total investment of approximately $2 billion (3.9 percent of GDP).

48. Substance of Prior Action. The new program - NPPS, established on January 13, 2022, is a transition program from the PPS to support vulnerable households still affected by the pandemic. The NPPS includes the pre-existing support modalities of digital food vouchers and food baskets and adds a labor market inclusion intervention i.e., intermediation and a wage subsidy modality (*Empleo Solidario*). Regarding digital food vouchers modality, the roster of beneficiaries is restricted to the latest roster of the same modality under PPS (from December 2021). The Ministry of Social Development (MIDES) assesses beneficiaries' vulnerability through an online survey[51] to gradually exclude individuals who do not meet the vulnerability criteria starting April 2022. These beneficiaries must comply with a monthly conditionality of on-line training or community work. The NPPS will continue to distribute food baskets through the Ministry of Agriculture (MIDA), which is the ministry in charge of improving life quality of the rural population.[52] Lastly, to promote employment recovery, the Ministry of Labor is implementing *Empleo Solidario*, offering temporary support to firms that had suspended workers during the pandemic. Most of these suspended workers were covered by the PPS. This new modality aims to support them in restoring their livelihoods and getting back to work.

49. Expected results. The expected impact of the prior action is to support vulnerable population still affected by the pandemic, not covered by traditional social assistance programs, and support their transition to the labor market during the recovery phase. This result will be measured by the percentage of population aged 18 or older that are direct recipients of a temporary social protection program (PPS or NPPS), disaggregated by gender. The target is at least 15 percent or lower of the total population aged 18 or older (direct beneficiaries) in 2022 from a baseline of 26 percent in December 2021 (that received the PPS), reflecting that a social protection program will continue benefiting people still affected by the pandemic (instead of suddenly stopping crisis support) but gradually phasing out the less vulnerable beneficiaries (as measured with a vulnerability index). The data source of the number of beneficiaries is administrative data from the PPS and NPPS and the population 18 years old or older comes from the population projections of Panama National Census and Statistical Institute (INEC).

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

50. Pillar B supports reforms to strengthen public institutions, encouraging a transparent and fiscally sustainable economic recovery. 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

[50] There are 10 online courses for Vale Digital beneficiaries in ESTER platform of INADEH, including personal and soft skill training, introduction to entrepreneurship, hospitality training, car preventive maintenance, and basic techniques of food preparation, among others. To respond to the high demand of courses, INADEH expanded the number of available courses and strengthened its technological capabilities.

[51] MIDES developed a vulnerability survey which includes questions about household composition (presence of pregnant women, children below 8 years old and disability), housing conditions (including overcrowding and housing tenure), health situation (member with disabilities or someone who died due COVID-19), and employability (educational level of the head of the household, and languages and software knowledge). A vulnerability index combines the household composition, housing, health, and employability dimensions, giving 50 percent of weight to employability.

[52] In practice, the government has confirmed that MIDA delivers food baskets to individuals living in Indigenous territories, rural areas, and peri-urban areas where the distribution of digital food vouchers is unfeasible.

the COVID-19 crisis increased the country's fiscal deficit as a share of GDP and public debt. The rebalancing of fiscal account requires reducing current spending through efficiency gains. In this context, improving procurement practices and revenues mobilization are critical to achieving sustainable savings. The adjustment is also expected to temporarily reduce public investments. In this context, attracting private financing to meet Panama's important infrastructure needs is paramount, especially in poor areas outside the capital. Strengthening the regulatory and institutional frameworks for PPPs is a key condition for this to happen. At the same time, improving investment transparency by advancing critical anti-money laundry measures will favor responsible investment flows going forward. This pillar supports three prior actions related to the transparency and efficiency of the mobilization and use of public resources. These actions continue the implementation of key reforms supported under DPF 1, such as the regulatory framework for the creation of the registry of ultimate beneficial ownership (UBO), a new procurement law, and a new legal framework for PPPs.

DPF2 Prior Action 4: The Borrower has taken measures to further enhance the transparency of business operations by: (a) establishing measures for the verification on a risk-based approach and update of information entered in the UBO registry as well as dissuasive administrative sanctions for non-disclosure and/or delayed disclosure; (b) amending legislation to improve access in the Borrower's territory to accounting records of offshore business operations and strengthen administrative sanctions for non-compliance with exchange of information requests.

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

51. Rationale. Peer evaluations have shown deficiencies in Panama's rules and enforcement on AML/CFT and tax evasion, but authorities have been making steady progress to address these shortcomings. Fragilities in the AML/CFT system and corresponding reputational risk weaken the stability and integrity of the Panamanian financial markets and may discourage further attraction of FDI. Additionally, lack of information and transparency on the UBO of legal persons and arrangements, and their registration makes Panama vulnerable to criminal activities and can facilitate tax avoidance and evasion domestically and abroad. Some of these deficiencies have also raised questions on Panama's capability to effectively provide international cooperation, particularly in the investigation of alleged tax offences and money laundry cases. The authorities have been making steady progress to address the deficiencies highlighted by the regional task force (FATF) body for Latin America and the Caribbean (Grupo de Acción Financiera de Latinoamérica, GAFILAT) and the Global Forum on Transparency and Exchange of Information for Tax Purposes recent peer evaluations concerning Panama's rules and enforcement processes against AML/CFT, and tax avoidance and evasion. Important milestones so far include: (i) Law 52 of 2016 that established a new obligation for all legal entities incorporated in Panama to keep accounting records and supporting documents on their offshore business operations, and (ii) Law 23 of 2019 that mandated financial and non-financial agents to maintain updated registries of information on ultimate beneficial owners and to report related suspicious activities to the relevant authorities.

52. Reform Implementation. Building on earlier efforts, Panama enacted Law 129 of 2020,[53] supported as a prior action for DPF 1. The law introduced an obligation on businesses incorporated in Panama to disclose their UBO to their respective resident agents, who in turn have to register this information in a newly created UBO

[53] Law 129 of 2020 creates and regulates a registry of UBO, managed and maintained by the Superintendence of DNFBPs, as a repository of the information of UBO of all legal persons created in Panama

registry. These obligations and the establishment of the UBO registry have considerably improved conditions for ensuring the availability and access of information for AML/CFT and tax purposes. However, Panama needs to go a step further to ensure the effectiveness of this transparency framework. International experiences demonstrate that timely access to the most up-to-date information is key. Practices that contribute to enhance this effectiveness include: (i) the obligation on all businesses (including those operating offshore) to maintain their information in the country where they are incorporated, and (ii) ensuring that the information in the UBO registry is accurate and updated on a timely basis. In particular, necessary mechanisms need to be in place to ensure that information entered in the UBO registry is verified on a risk-based approach and is updated in as timely a fashion as possible, in line with international practices. Equally important is that the sanctions framework includes dissuasive measures for non-disclosure and/or for delayed disclosure of required information.

53. Substance of Prior Action. Prior action 4 help reinforce the desired impacts of Law 129, by supporting the regulatory framework implementing the Law, which among other things, introduces a risk-based verification mechanism and risk-based supervision of the information entered in the UBO registry to ensure that it is as timely updated and accurate as possible. Panama has also introduced several legal amendments to improve the effectiveness of the beneficial owner registry. Law 254 amends the Law 129 of 2020 (UBO Registry) to ensure that: (i) the law is operational; i.e. that access is granted to the tax authority, that legal persons are required to update information within 15 days after changes occur (versus original 30 days), and that a five-day period is given for agent residents to notify the authorities of any changes; (ii) risk-based inspections are required to verify the information provided, facilitated by allowing the UBO Registry to produce statistical data on resident agents, legal persons, and beneficial owners in order to assist the Superintendency of non-financial regulated persons in the risk analysis; and, (iii) sanctions for non-disclosure and delayed disclosure or fail to comply with Law 129 are dissuasive (including non-compliance fines that range from $5,000 Panamanian balboas to $5,000,000). These modifications allow Panama to bring the legal framework for beneficial owners closer to the FATF standard and international best practice. Law 254 also amends Law 52 of 2016 in order to improve timely access to accounting records of offshore business operations. It does so by introducing the obligation on resident agents to maintain this information in Panama and by strengthening sanctions against both legal entities and resident agents for non-compliance with their obligations. These changes together with changes in the tax code included in Law 254 regarding sanctions for not providing timely information to the competent tax authority will contribute improving the effectiveness of exchange of information requests.[54]

54. Expected results. 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, these efforts contribute to improving international cooperation on tax avoidance and evasion by ensuring that beneficial ownership and accounting information of companies with offshore operations is available in a timely manner. By providing additional information on operations (domestic and foreign) of legal entities incorporated in Panama, these measures will build on other ongoing changes to the country's tax administration and expected changes to its tax policy. In so doing, they will support enforcement efforts by the Panamanian tax administration, particularly those addressed to large taxpayers and high-net-worth individuals.

[54] Penalties to legal entities have been increased and non-compliance entities will be deemed inactive and subject to the start of dissolution procedures. In addition, sanctions against non-compliant resident agents have been included.

Results Indicator 5: Central government institutions using e-procurement system (PanamaCompra 3) (number).
Results Indicator 6: Publication of consolidated financial statements (number).

55. Reform implementation. In 2020, supported by DPF1, the Directorate General for Public Procurement (DGCP) amended the public procurement law to introduce new transparency and accountability mechanisms, to strengthen citizen participation, improve fiduciary controls, and establish a clear prioritization mechanism to give better opportunities to Panamanian companies to compete within the system. The amendments also strengthen institutional arrangements to enhance fairness and efficiency within the system to give opportunities for participation to a larger number of bidders, thus facilitating the inclusion of micro, small, and medium-sized enterprises in the procurement market as well as local providers in the country's various geographical areas. The changes to the public procurement law also incorporate energy efficiency and sustainability considerations in the selection criteria. This allows for improvements to the assessment of the total cost of ownership in the lifespan of government purchases in line with climate change mitigation objectives. The government progressed on the implementation of these reforms by designing and establishing the technical specifications of a new e-Procurement platform (*PanamaCompra 3*) consistent with the new Law and its implementing regulations. The new system establishes better controls for the monitoring 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. The government mandated government institutions to adopt the new system by May 2022, and by including in the standard bidding documents requirements for affidavits from bidders regarding compliance with sustainable procurement practices contemplated in the new Law. At the end of the DPO series it is foreseen that *PanamaCompra3* will be operational and in full use in at least 90 government institutions in Panama.

56. In parallel, the government issued regulations introducing necessary conditions and procedures for the generation of consolidated financial statements. These 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", supported as a prior action for DPF1**.** The government has made noteworthy progress in the implementation of the institutional plan and achieve the four targets originally set as trigger for the operation. This has enabled the MEF to produce consolidated financial statements for the Fiscal Year 2017, which have been submitted to the General Comptroller's Office for auditing prior to publication. The government continues to work in the preparation of the consolidated financial statements for the remaining years (2018-2020) so they can also be submitted to the General Comptroller's Office for their auditing. At the end of the DPF series it is foreseen that the consolidated financial statements for the years 2017-2020 respectively will be publicly available.

DPF2 Prior Action 5: The Borrower has further strengthened the PPP regulatory framework by approving policy guidelines and methodologies for the: (a) evaluation, assignation and valorization of PPP risks; and (b) the analysis of value for money of PPPs.

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

57. Rationale. In the context of the COVID-19 crisis and with a declining fiscal space in Panama, public investment in infrastructure is likely to be reduced. This will limit job creation and widen exiting infrastructure gaps, causing negative long-term consequences. PPPs can be an effective way to boost infrastructure investment through the mobilization of private financing. Until recently, however, Panama lacked an adequate framework for private participation in infrastructure. The main limitations of its outdated legal framework included: an institutional vacuum with no structured organization and ad-hoc management, meaning concessions were launched in an autonomous way by each governmental entity with little or no strategic planning (frequently through unsolicited proposals); the absence of integrated fiscal management or a policy for risk assessment and management; the lack of involvement of key stakeholders; and limited assessments of value for money.[55]

58. Reform implementation: Recent reforms, supported as a prior action in DPF 1, set forth the terms and provisions required to competitively attract the most qualified investors and to target long-term PPP to ensure continued investments in infrastructure service delivery. This enabled the government to align payments over the life of the asset and to transfer certain risks to the private parties concerned. The main building blocks of the new PPP legal framework are: (i) the adoption of the 2019 PPP Law (ii) the establishment of a National Secretariat of PPP (SNAPP, *Secretaria Nacional de Asociaciones Público Privadas*) in late 2019; and (iii) the development of an initial PPP pipeline, primarily based on transport operations. The new legal framework has been launched against an inherited backdrop of stringent public investment policies. This stringency has been compounded by the effects of the pandemic. Private-sector involvement will not only preserve scarce budget resources and smoothen the costs of infrastructure service over time on selected economically viable projects, but it will also improve efficiency of service delivery. The new legal framework streamlines institutional organization and improves governance. It also requires an orthodox fiscal risk assessment as well as a planning and management system for fiscal sustainability. Finally, it improves transparency and the rules of the game for private-sector interventions at all stages of the project cycle.[56] Two aspects, however, are crucial to move from the legal framework to results, namely ensuring SNAPP is staffed and fully functional, and that the country's fiscal framework incorporates the needs of projects contracted under the PPP modality.

59. Substance of Prior Action. The government has strengthened the PPP framework with the adoption on December 31, 2020 of the executive decree 840, regulating the 2019 PPP law, and by building capacity to adequately implement the new legal framework and the infrastructure projects. The regulation includes key principles such as roles and responsibilities of the key actors, modalities of planning and execution, financing modalities and budgeting, as well as approval processes, securities, and contractual management (e.g., risk and responsibilities assignation, modifications, termination, management of litigations etc.). In parallel, the GoP has been building capacity through the staffing of the National Secretariat for PPP,[57] the establishment of procedures and guidelines in line with the 2019 PPP law, and technology updates that ensure compatibility with the national

[55] A 2017 study commissioned by the Inter-American Development Bank and conducted by The Economist Intelligence Unit, ranked Panama 18th (out of 19 countries) in terms of PPP regulatory frameworks in the region and according to the World Bank's Procuring Infrastructure PPPs 2018, Panama's systems were amongst the weakest for preparation of PPPs.

[56] The new PPP law establishes that projects pursued as PPPs must be part of the five-year investment plan and must be procured under a competitive framework, mandates specific analysis as part of project preparation and establishes that renegotiations and adjustments to contracts cannot go beyond a certain limit of contract value.

[57] The National Secretariat for PPP (Secretaría Nacional de Asociaciones Público Privadas, SNAPP) has been progressively staffed with the appointment of legal and financial specialists from other government institutions and with the hiring of complementary staff. It expects to reach total staff of around 25 persons.

procurement system.

60. Due to the likely high amounts involved in PPP projects, as well as the long-term and complex nature of these contractual arrangements, PPPs require specific public financial management regulations and guidance to handle risks. In this context the government, through National Secretariat for Public-Private Partnerships (SNAPP), has prepared two key policy guidelines addressing operational, financial, operational aspects of PPP projects. The first considers the evaluation, assignation and valorization of risks, critical to informed and balance division of risks and costs among involved party. The second stipulates the analysis of Value for Money associated with these projects. The policy guidelines have been adopted by the inter-ministerial PPP committee on March 24, 2022.

61. **Expected results.** The new PPP law and its regulations will create the institutional framework needed for larger and fiscally responsible private financing of infrastructure. One expected result is the increased participation of the private sector in strategic infrastructure projects. Another is 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 fiscal risks. These policy actions will be measured by the amount of private-sector financing mobilized to fund key infrastructure services under the new PPP framework, with a target of at least 500 million by 2023 (equivalent to 0.7 percent of GDP).

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

62. **Pillar C seeks to strengthen institutions to build forward more strongly, supporting reforms to create a more inclusive and environmentally sustainable economic recovery.** Panama's rapid growth gains prior to COVID-19 were not distributed equally, with rural areas and IP falling behind. The COVID-19 crisis has widened preexisting gaps. Under DPF1, this pillar achieved a number of positive outcomes, including: the promotion of access to financial and technical assistance for family farmers, especially female farmers and those from Indigenous populations; the recognition of Indigenous people's rights through improvement in regulations to recognize their collective land overlapping national protected areas, thus improving land security tenure; and the greening of the economy through regulations that support the reduction of pressure on natural resources, promote renewable energy sources, established Sustainable System of National Greenhouse Gases Inventories, and created the National Emissions and Mitigation Actions Registry (which established the basis for a GHG carbon market). Under DPF2, this pillar deepens its support for reforms benefitting family farmers through the establishment of the Family Farming National Fund. It also strengthens Indigenous Peoples' empowerment through the creation of participatory processes in Panama's legal framework. Finally, it enhances the environmental sustainability of economic activity through the reduction of emissions by supporting decarbonization and market-based strategies, such as establishing regulations to operate the carbon market and to incentivize demand for carbon offsets by the private sector.

DPF2 Prior Action 6: The Borrower has supported the integral development of rural vulnerable groups, with a particular focus on indigenous peoples, through: (a) the approval of a national legal framework establishing actions for inclusion of indigenous peoples' priorities in public investment planning, implementation and monitoring, through participatory processes and in line with international good practices, and promoting local economic development opportunities; (b) the issuance of a regulatory decree to the Family Farming Law, including requirements to ensure that the poorest family farmers, and particularly women, youth and indigenous people are beneficiaries of public support in the agriculture sector. ***Results Indicator 8:*** Family farmers benefiting from the Family Farming National Fund (number and percentage). ***Results Indicator 9:*** Programs registered in SINIP that have been designed in consultation with the IP Council (number).

63. Rationale. Rural poverty in Panama was six times higher than urban poverty in 2019 using the poverty line of $5.5 (2011 Purchasing Power Parity) per capita per day. Poverty in Indigenous Comarcas, meanwhile, was 14.5 times higher. Indigenous territories in Panama are not only characterized by high levels of extreme poverty, but also by a lack of public services. In addition, they show the poorest social outcomes and have the worst access to opportunities. In 2019, while the national poverty rate stood at around 12 percent, the rural poverty rate was around 28 percent, and 70 percent in Indigenous territories, with the highest rates in the comarcas of Ngobe-Buglé, Guna Yala, and Emberá-Wounaan. Lack of access to good quality public services has also resulted in low human development in Indigenous territories and other rural areas. Beyond Indigenous territories, poverty and access to services and opportunities in rural areas are also significantly worse than in urban settings. Rural women, for example, face additional challenges that limit their potential. These include: (i) low labor force participation; (ii) wage differentials (vis-à-vis men); and (iii) lack of recognition when it comes to assuming a leading role in farmer organizations. The agriculture sector is one of the main economic drivers in Panama's lagging rural regions and Indigenous territories. Panama has approximately 250,000 farmers, of whom 80 percent are small family farmers with an average of two hectares of land. Around one third of farms are managed by women and three percent by Indigenous women. Existing gender inequalities hinder rural women's ability to gain access to public sector investment programs and to private financing for improving their productive systems and increasing their income.

64. Climate change in Panama is expected to increase dry season temperatures as well as the frequency and intensity of extreme weather events (such as droughts through La Niña or floods), particularly affecting sectors such as agriculture and disproportionally impacting vulnerable groups. This will impact agricultural production through increased heat stress on crops and animals, increased intensity and frequency of crop failure, reduced access to water for irrigation and animal production and increased pest and diseases outbreaks. Indigenous Peoples, particularly those in coastal and agriculture regions face additional challenges. For instance, due to the rise in sea levels and other climate hazards, it is expected that the Guna Peoples will have to relocate from their ancestral island habitats to the mainland. This will impact their culture and traditional ways of living and livelihoods. Indigenous peoples reliant on subsistence agriculture are more likely to be at risk of food insecurity as changes in rain patterns and increased exposure to more frequent floods and droughts in their territories will highly impact harvests and livelihoods. In a context of mostly traditional agricultural productive systems and weak enabling environment, family farmers (many of which are Indigenous peoples) have a low adaptive capacity to these effects of climate change.

65. Despite slight increases in recent decades, public investment in Indigenous territories and rural areas continues to be low in comparison to urban areas. Also, it has failed to close gaps in terms of access to basic services or to significantly improve access to economic opportunities. The participation of IP in decision-making spaces remains limited. Progress has been made during the past decades through the recognition of Indigenous Peoples' cultural rights and collective land tenure security, the formulation of the National Indigenous Peoples Development Plan (PDIPIP, for its acronym in Spanish), and the establishment of the National Council for the Integral Development of Indigenous Peoples (CONDIPI).[58] Despite these achievements, significant gaps and structural barriers continue to limit the voice and agency of IP in the development of their territories. Although the agricultural sector's economic role has declined over the past decade – from about 25 percent of the country's GDP to 3 percent – the sector has the potential to continue making important contributions for Panama's most vulnerable groups through export revenues, employment generation, and domestic food and nutrition security. However, until recently, policies for the agricultural sector have mostly focused on medium to large agribusinesses. This has left family farmers with low technical and financial support, making it challenging for them to increase their productivity in a sustainable way and to adapt their production systems to climate changes.

66. Reform implementation. Under PA7 of DPF1, the government also adopted a Family Farming Law (Law No. 127, passed on March 3, 2020) that aims to direct public support towards family farmers with a view to improving their productivity and increasing their food and nutrition security in a sustainable way. The Law explicitly recognizes family farmers' contribution to the country's food security, economic development, and sustainable management of natural resources. In addition, it supports the design and implementation of tailored policy interventions to unlock family farmers' potential and support their resilience to climate change. The Law highlights and endorses the need to create mechanisms for increasing the participation of women, as well as Indigenous and Afro-descendant communities. The main pillars envisaged in the law comprise: (i) the establishment of a single registry for family farmers (Registro Único de Agricultores Familiares - RUAF), an ICT-based tool for facilitating a timely decision-making process and improving the impact of public investments; (ii) a National Family Farming Plan (Plan Nacional de Agricultura Familiar – PNAF) to identify investment priorities for the swift implementation of the Law; and (iii) the creation of a financing instrument to support the development of family agriculture (Fondo Especial para el Desarollo de la Agricultura Familiar – FEDAF). Other actions supported under DPF1 have also focused on improving living conditions of Indigenous Peoples, such as PA8 of DPF1, which supported the reform that established the legal basis to, *inter alia*, facilitate recognition of collective land to IP on national protected areas and improve security of tenure. Further details are included in the corresponding prior action.

67. Substance of Prior Action. Important legislation and regulations have been adopted by the government to increase opportunities for the most poor and vulnerable groups, with a particular focus on Indigenous Peoples, and residents of rural areas. The Law No. 301, published in the Official Gazette on May 12, 2022, sets forth a series of actions to promote the development of Panama's Indigenous Peoples. The new legislation: (i) adopts the PDIPIP as a guide for policy design in Indigenous territories and recognizes the role of Indigenous Authorities as partners in defining and implementing development investments in their territories; (ii) provides a framework for the inclusion of all Indigenous peoples, both within and outside Indigenous territories, in the planning and

[58] The PDIPIP was prepared by and sets forth Indigenous Peoples priorities and needs.

implementation of policies and public investments; (iii) establishes a participatory monitoring system to keep track of policy commitments and targets; and, (iv) promotes local economic growth and opportunities. The new legislation highlights Panama's commitment to inclusion and improvement in access to opportunities for IP as it institutionalizes their participation in the design and implementation of policies and programs that impact in accordance with their cultural identity. The Bank supported the proposed bill through technical assistance, identifying legal gaps and structural barriers and providing recommendations to strengthen the proposed bill.

68. In addition, to improve opportunities for small family farmers in rural and indigenous territories, the government, through Decree 112 of July 9, 2021, has defined criteria per regions, to identify and give specific support to the smallest family farmers and to rural women and youth and those living in indigenous communities. The data made available through RUAF will improve the targeting of small farmers, and of women, youth, and Indigenous People[59], while also allowing them to benefit from dedicated public support and services, such as (i) innovation and extension services; (ii) dedicated financial support through FEDAF; and (iii) prioritized access to public procurement programs.[60] Support provided through the innovation and extension services and FEDAF will particularly increase small family farmers' resilience to climate change, increase their productivity in as sustainable way (mitigating their impact on natural resources and GHG emissions). By allowing for the improved targeting of small family farmers, women, and IP, the Decree will contribute to improving the efficiency and impact of public support for reducing the poverty gaps identified between the country's rural and urban communities as well as the gender gaps identified in the agriculture sector, particularly their low access to public sector investment programs and finance.

69. Expected results. This policy action will be monitored by: (i) programs registered in Panama's National System of Public Investment (SINIP) that have been designed in consultation with the IP Council; and (ii) the number of family farmers benefiting from the dedicated public support, as recorded in the RUAF, disaggregated by ethnic groups and gender. The expected numbers of programs registered in SINIP that have been designed in consultation with the IP Council is at least 12 by 2023, from a baseline of 0 in 2019. The RUAF is expected to monitor how the investments facilitated through the Family Farming National Fund (FEDAF) are improving the income of beneficiaries. After a year of implementation, at least 5,000 family farmers should have benefitted from dedicated public support from the FEDAF. Of these, 40 percent are expected to be women-led households and 40 percent will be Indigenous People. These policy actions provide a roadmap to overcome the significant gaps faced by vulnerable groups, such as women, IPs, and Afro-descendants. They also serve to promote public investment in rural areas and Indigenous territories, in line with the specific development priorities of both of these geographic areas. Beyond the timeline for this operation, more farmers will be supported as they are (i) registered in the RUAF and (ii) the replenishment of FEDAF (via public and/or private funds) allows to reach more beneficiaries. These policy actions will contribute to enhance climate resilience of Panama's farmers and increase their productivity and their incomes.

[59] The RUAF includes data disaggregated by relevant categories, including disaggregation by sex, to inform the implementation of FEDAF.
[60] The Decree also establishes that the Directorate of Rural Development within the Ministry of Agriculture (MIDA) will define a framework to ensure cross-cutting issues, such as gender and indigenous peoples are adequately addressed.

DPF1 Prior Action 7. The Borrower has created the National System of Data for Adaptation to Climate Change, mandated the development of the National System of Monitoring, Evaluation and Report of Adaptation, taken measures for the establishment of the Climate Change Adaptation Fund and created the national program Build Your Resilience.

Results Indicator 10. Total area of national protected areas under enhanced conservation and social inclusion regulation (hectare).

70. Rationale. Panama's forests and natural resources are strategically important to both the mitigation and adaptation to climate change impacts. They also play a key role in the country's development and poverty alleviation strategies. Panama is among the countries with the highest percentage of forest cover in the world, covering 60.4 percent of its total area.[61] The carbon removals of Panama's forests exceed the country's emissions. Also, forests play a key role in conserving globally significant biodiversity, providing livelihoods and sustaining cultural heritage. Healthy and well-managed ecosystems are more resilient to natural disasters and the long-term consequences of climate change,[62] and sustain biodiversity, which at the same time is critical for maintaining ecosystems and the services they provide.[63] Even though the rate of deforestation has slightly decreased in recent years, it continues to be one of the main drivers for the loss of natural capital in the country.

71. In Panama, protected areas and claimed Indigenous territories are the most effective tenure regimes for avoiding deforestation, and these areas also possess high forest cover. Through resolution DM-0612-2019 (DPF1 Prior Action #8) the government acknowledges the pre-existence of rights acquired by Indigenous communities on national protected areas and facilitate the reduction of pressure on natural resources. These lands will be managed under specific environmental management plans and as a result will promote a more sustainable use of resources while also preserving traditional practices and reducing deforestation. Adaptation to climate change has been incorporated in Panama's updated nationally determined contributions (NDC) and forests play a crucial role in achieving its target. The government has also included adaptation as a national priority. This reflects the country's extreme vulnerability to climate change and the consequent impacts for its population, livelihoods, ecosystems and production. As Panama battles the health and economic crises caused by COVID-19, vulnerable stakeholders are already suffering additional impacts of a rapidly changing climate. The country recognizes that adaptation is a global challenge faced by all with local, subnational, national, regional, and international dimensions. Similarly, it acknowledges that adaptation contributes to the long-term global response to climate change to protect people, livelihoods, and ecosystems. Forests play a fundamental role in sustaining life and livelihoods. This is especially noticeable before, during, and after disasters.

72. Reform implementation. Under Prior Action 8 of DPF1, the Bank supported the reform that established the legal basis (resolution DM-0612-2019) to facilitate recognition of collective land to IPs in national protected areas, improvement of security of tenure, and reduction of pressures on natural resources. Until April 2021, the Ministry of Environment (MiAmbiente) reported approximately 995,000 hectares of forest which are in nine natural

[61] Gaceta Oficial Digital (2 de abril 2019). Ministerio de Ambiente. https://www.gacetaoficial.gob.pa/pdfTemp/28745/GacetaNo_28745_20190402.pdf
[62] Toward a Clean, Green, Resilient World for All. World Bank. *https://www.worldbank.org/en/topic/environment/publication/environment-strategy-toward-clean-green-resilient-world*
[63] Sobrevila, Claudia; Hickey, Valerie.2010. The role of biodiversity and ecosystems in sustainable development (English). 2010 environmental strategy analytical background papers. Washington, D.C.: World Bank Group.

protected areas that are overlapped in 21 collective or community areas, improving security of tenure and contributing to reduction of pressures on natural resources.

73. Substance of Prior Action. Panama needs to ensure climate resilience to build-back-better as it recovers from COVID-19. Executive Decree No. 100[64], approved in October 2020 (DPF1 Prior Action #10) was the first milestone to address the country's climate challenges. This Decree regulates the climate change mitigation aspects of the National Environmental Law. While this regulation sets forth important aspects of a decarbonization strategy and includes institutional aspects to monitor, report, and regulate emitters, the country is also required to advance its climate adaptation pathway. Further regulation is necessary to develop policies and financing strategies for climate change adaptation, as well as to build resilience. Thus, Panama, through Executive Decree No. 135, dated April 30, 2021, has regulated the provisions of the Chapter I- *Adaptation of Global Climate Change* of Title V of the Single Text of the General Environmental Law (GLE) (Law 41).[65] This regulation stipulates the preparation of the key elements to plan and prepare the country to better adapt to climate change by planning adaptation measures, as well as mapping the resilience initiatives already in place and monitoring them. Also, the Executive Decree No. 135 creates the Climate Change Adaptation Fund. This will be destined to finance priority adaptation and resilience projects that permit climate risk management in vulnerable communities, ecosystems, and productive systems throughout Panama. The Fund will be administered by the Climate Change Directorate of MiAmbiente. The Decree establishes the sources of income for the Fund as well as the activities to be financed, highlighting that priority will be given to the sectors established in the NDC. Furthermore, Decree No. 135 consolidates existing policy instruments for climate change adaptation under the newly established National Program *Build Your Resilience*. This program aims at managing and monitoring adaptation to climate change in Panama, with the objective of implementing adaptation strategies and increasing resilience effectively by 2050 (adaptation long -term strategy). As a result, Executive Decree No. 135 also established: the National Data System for Adaptation to Climate Change, the Climate Change Adaptation Fund, Panama's System for Monitoring, and the Evaluation and Reporting of Adaptation. These systems and policies will provide key information to monitor targets of Panama's NDC adaptation component.

74. Expected results. The indicator established in DPF1, namely, the total area of national protected areas under enhanced conservation and social inclusion regulation, remains relevant under the country's adaptation NDC component. Through Decree 135, the government establishes adaptation policies and systems that will generate key information for designing policies that will contribute to reducing the vulnerability of vulnerable communities and ecosystems. The planning processes and adaptation policies established through Decree 135 will contribute to improving the resilience of socioeconomic systems in indigenous territories through the sustainable management of natural resources. The expected result on natural protected areas under enhanced protection and social inclusion status addresses not only adaptation to climate issues, but also fosters local populations' capacity to sustainably manage natural resources.

[64] https://www.gacetaoficial.gob.pa/pdfTemp/29138_C/GacetaNo_29138c_20201020.pdf
[65] General Environmental Law (Law 41 of July 1, 1998): https://www.gacetaoficial.gob.pa/pdfTemp/28131_A/GacetaNo_28131a_20161004.pdf

DPF2 Prior Action 8. The Borrower has advanced the decarbonization agenda by enacting a law that incentivizes electric mobility for ground transportation. **Indicator 11.** Increase in electric vehicle registrations (number)

75. Rationale. The energy sector is key to accelerating the transition towards a resilient and sustainable economy, supporting the economic recovery after the COVID-19 pandemic, and allowing Panama to achieve its mitigation goals under the Paris Agreement. The energy sector represents 44 percent of total emissions in Panama, while the transport sub-sector represents around 50 percent of total energy sector emissions. Thus, decarbonizing transport has become a priority for the country. In this regard, Panama recognizes the important role electric vehicles can play, not only in reducing carbon emissions, but also in achieving a green recovery and the creation of job opportunities. Moreover, decarbonized energy supply and logistic chains will enable the production of low carbon and sustainable goods and services to supply a growing demand for green products. Despite not being a significant GHG emitter, Panama has committed to undertake important mitigation measures to reduce emissions, mainly in the energy sector. The government recently submitted the updated version of its NDC to the UNFCCC and committed to reduce total emissions from the energy sector by at least 11.5 percent by 2030 and by at least 24 percent by 2050, with respect to the baseline scenario. Panama anticipates increasing its share of renewable energy in the power sector and electrifying end uses, as well as using low-carbon fuels and encouraging the rational and efficient use of energy. These measures can collectively help reduce emissions and the cost of electricity, as well as increase energy security, improve the competitiveness of the economy, and enhance resilience to climate impacts. At the same time, such measures will support the most vulnerable population. The energy transition is at the heart of the decarbonization of Panama's economy. It is fundamental to addressing climate risks and development priorities for the Latin American and Caribbean region.

76. Reform implementation. Prior Action 9 in DPF1 supported the modification of how procurement rules for the wholesale electricity market are regulated. This measure facilitated the participation of renewable energy by introducing an alternative that eliminates barriers and provides flexibility in energy supply bids in the tendering process (ASEP's Resolution AN-13242-Elec dated April 4, 2019). During the latest energy auction in October 2021, 55.2 percent of the allocated energy was awarded to variable renewable energy sources (solar and run-of-river hydro), while the remaining 44.8 percent was awarded to hydroelectrical plants with reservoirs (Bayano and Fortuna).

77. Substance of Prior Action. Accelerating the energy transition toward less polluting and carbon-neutral technological alternatives and prioritizing climate-smart infrastructure investments in the energy and transport sectors require the direction of a transparent strategy and detailed roadmap. To this end, the Panamanian Secretariat of Energy has approved the Energy Transition Agenda to highlight how the country will shift towards an energy sector that is decarbonized, resilient, decentralized, democratic, and digital. As part of this agenda, the approval of Law 295[66] to incentivize electric mobility for ground transportation creates a legal framework for accelerating Panama's shift to a more sustainable transport sector and to lower sectoral GHG emissions. Law 295 sends a clear signal of the government's commitment to the Energy Transition Agenda and its determination to achieve its international climate commitments. The Law sets the target that 40 percent of the administrative fleet

[66] The Law will be effective one year after its promulgation.

and 33 percent of public transportation will be electric by 2030. This is to be achieved through a mix of fiscal incentives, preferential treatment, and liberalization of the creation and operation of charging stations.

78. **Expected results.** The operation will track the development of registrations of electrical vehicles (private, commercial, and public, including buses) from December 2020 to June 2023. Due to the incentivization of e-mobility provided for in the electromobility law, the total number of electric vehicles, which was around 200 in December 2020, is expected to increase by 150 percent, to at least 500 by June 2023. In the medium term (2030) the impact of the targets for the administrative fleet and the public transportation will be significant and will be an important step for the energy transition, since the transport sector is one of the biggest contributors of GHG emissions.

DPF2 Prior Action 9. The Borrower has issued a decree establishing the objectives, requirements, and a governance structure for the gradual and progressive development of the domestic carbon market.

Indicator 12. GHG emissions regulated under economy-wide policy instruments (percentage).

79. **Rationale.** These mitigation policies will incentivize decarbonization efforts across sectors, while at the same time being complemented through ambitious efforts on adaptation to the climate change agenda. The Executive Decree No. 100, approved in October 2020 (DPF1 Prior Action 10), sets the stage for upcoming policy actions to address the country's climate change challenges. It also regulates the provisions of Chapter II-Mitigation of Global Climate Change Title V of the Single Text of the GLE (Law 41), which mandates the preparation of the key elements to provide transparent and robust accounting and reporting of Panama's climate change commitments. Specifically, the Executive Decree No. 100 mandates the establishment of a Sustainable System of National Greenhouse Gas Inventories (SSINGEI). It also requires the operationalization of a National Emissions Registry (DPF1 Prior Action #10), plus the development of a corporate program to enable private companies to report their GHG emissions and pledge carbon neutrality objectives. Finally, it firms up Panama's stated intention to develop a domestic carbon market. Panama acknowledges that carbon markets can play a vital role in supporting climate ambition and in achieving the country's climate goals in a cost-efficient way, while simultaneously supporting other development objectives. The importance of the reforms supported in this prior action is twofold: by setting forth rules and governance structure for the domestic carbon market, Panama can move towards the implementation of such a market; and by establishing a program to foster demand for carbon, traders will be attracted to this market.

80. **Reform implementation.** Under Prior Action 10 of DPF1, the reforms supported included the establishment of the SSINGEI. The government has been advancing the implementation of these reforms. The first meeting towards the operationalization of SSINGEI took place in June 2021 and since September 2021 the system has been fully implemented. The SSINGEI is a key tool to monitor and report on GHG emissions in the country, supporting an economic development path with lower emissions and the achievement of the international commitments made by Panama towards a greener economy.

81. **Substance of Prior Action.** Carbon markets have the potential to unlock private investment and to crowd in private finance, guiding new investment opportunities in emission reductions in a post COVID-19 context. The

pandemic has put additional pressure on already scarce public resources. As such, it is critical to the promotion of cost-effective reduction measures and to the increase of the role of private financing. While Executive Decree No. 100 sets forth important aspects of the decarbonization strategy, Panama needs to advance further regulations in order to send strong market signals to propel demand for carbon credits and to encourage private-sector participation. The carbon market can also enable climate investments in sectors that have the potential to generate emission reductions, and hence to being linked as offsets to this market, such as forest, marine areas and other nature-based systems. A new executive decree creates the domestic carbon market as a financing mechanism to support the decarbonization of the economy. It defines the rules and governance structure for the domestic carbon market, following the mandate of Article 50 of Executive Decree 100.

82. **Expected results.** The operation will track the share of GHG emissions regulated under economy-wide policy instruments. The term 'economy-wide' in this context refers to GHG emissions communicated on a national level, without being assigned to a specific economic sector or policy area. Reduce your Footprint (*Reduce tu Huella*) is an instrument that covers the full range of Panama's climate ambition and all GHG gases. Regulated emissions are those included in the national greenhouse gas inventory, ensuring their inclusion in national policies and programs under Decree 100 and other relevant regulations and policies.

Table 5: 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	• World Health Organization, 2020. Roadmap for prioritizing uses of COVID-19 vaccines in the context of limited supply. • World Health Organization, 2020. COVID-19 significantly impacts health services for noncommunicable diseases (NCD). The effects of COVID-19 on the prevention and treatment of NCD. • 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. • OECD PISA 2015 data • National student assessments CRECER, 2021.
Prior Action 3	• Mongey, Pilossoph and Weinberg, 2020. Which Workers Bear the Burden of Social Distancing Policies? NBER Working Paper No. 27085. • Hallegatte, S., Vogt-Schilb, Bangalore, and Rozenberg. 2017. Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development Series. World Bank. • 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

Prior Actions	Analytical Underpinnings
	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 PPS, 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 PPS comes from: World Bank calculations based on Labor Market Household Survey 2019. • Gender Dimensions of the COVID-19 Pandemic, de Paz, Carmen; Muller, Miriam; Munoz Boudet, Ana Maria; Gaddis, Isis. 2020.
Pillar B - Strengthening institutions to support a more transparent and fiscally sustainable economic recovery	
Prior Action 4	• FATF Recommendations 2012 and 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	• *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 6	• 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.* • The Green Resilient and Inclusive Landscapes in Central America (ID: P176670) activity will provide technical assistance to support the preparation of the national Farming Plan • 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.* • Identification of investment gaps in Indigenous territories. *Final Report Technical Assistance to the Government of Panama to strengthen Bill No. 316 for the Development of Indigenous Peoples. The World Bank, 2021.*
Prior Action 7	• Showcasing the importance of sound forest and natural resources management for countries to reach their climate commitments and contribute both to global climate efforts while achieving local benefits: PROFOR, Strengthening the implementation capacity of forest based NDC commitments in Central America through regional cooperation and technical dialogue (P160325).

Prior Actions	**Analytical Underpinnings**
	• Analyzing and designing effective mechanisms to collaborate with local indigenous population to sustainably manage forest and natural ecosystems. The Green Resilient and Inclusive Landscapes in Central America (P176670 with ProGreen financial support for technical assistance) • Review the national legal framework on natural resource management with a particular focus on forest to strengthen forest protection and management in a cross sectoral manner, under the Green Resilient and Inclusive Landscapes in Central America (P176670 with ProGreen financial support for technical assistance) • Panama: Inputs for a national low carbon resilient growth strategy (P175311) This has provided the technical assistance and capacity building to support MiAmbiente to explicitly and methodologically sound include forest, land use and natural ecosystems to their climate change monitoring and reporting.
Prior Action 8	• 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, such as assistance to develop a regulation for ancillary services, which is key for the smooth integration of variable renewable energy in the power system in Panama.
Prior Action 9	• The World Bank has supported the government in defining and effectively implementing the SSINGEI through the activity "*Panama - Partnership for Market Readiness (P169829)*". Under this activity, the WBG is also accompanying the government in designing the implementation of carbon markets and financial instruments to accelerate the decarbonization of the economy. • *Panama: Inputs for a national low carbon resilient growth strategy (*P175311*).* This has provided the technical assistance and capacity building to support MiAmbiente to roll out the SSINGEI. The activity developed supporting tools and management systems that are necessary for the successful implementation of the SSINGEI. • 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; 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, Bangalore, Bonzanigo, Fay, Kane, Narloch, Rozenberg, Treguer, and 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

83. The DPF series is aligned with the *FY15-21 Country Partnership Framework (CPF) for Panama and its Performance and Learning Review (PLR), discussed by the World Bank's Board of Executive Directors on March*

2, 2015 and June 29, 2018, respectively.[67] The DPF series makes important contributions towards the fulfillment of the objectives of the CPF: (i) Objective 3 under Pillar 1: Improve Budget Management Transparency and Capacity (Supporting Continued High Growth); (ii) Objective 4 under Pillar 2: Complement Social Assistance with Productive Inclusion; and (iii) Pillar 3 more broadly: Bolstering Resilience and Sustainability. The DPF supports these objectives through its policy actions on improving transparency and increasing expenditure effectiveness, shifting towards cleaner energies, and moving towards a low-carbon economy, strengthening social protection programs, and policy actions to improve social inclusion for IP, Afro-descendants, and women.

84. During the COVID-19 pandemic, the World Bank Group's strategy for Panama has been focused on protecting human capital, including support for the country's emergency health response and for building the economy back better. The Bank restructured its portfolio and approved in 2020 a health emergency operation (Panama COVID-19 Emergency Response - P173881, $20 million) and the first operation of this DPF series. An additional financing for the abovementioned health operation was approved in March 2022 to support the purchase of vaccines, medical supplies for the prevention, detection, and treatment of COVID-19, and to strengthen national systems for public health preparedness. Also, the Second Panama Disaster Risk Management DPF with a CAT-DDO ($100 million) was approved in March 2022 to enhance Panama's technical and institutional capacity to manage the disaster risk resulting from the occurrence of natural and health-related hazards, including the adverse effects of climate change and disease outbreaks.

85. Looking into building forward better, **the Bank will support the government in its efforts to continue protecting human capital during the COVID-19 crisis and building a more inclusive and sustainable economy through the proposed operation, which is the second and last in the DPF series.** This second operation in the series not only continues supporting the crisis response through, inter alia, telehealth and the strengthened social protection response interventions, such as *NPPS*. It also deepens its focus on institutional reforms to help Panama transition out of the crisis and build back better. It fulfils these two functions by: (i) reducing long-term inequities in human capital and closing gender gaps; (ii) addressing institutional weaknesses for building a more transparent and fiscally sustainable economy, including combating illicit financial flows; and (iii) supporting a more inclusive and environmentally sustainable economic recovery while also promoting adaptation and mitigation to climate change. Similarly, IFC has been supporting private financial institutions with the growth of residential-mortgage lending to low-income households, increase housing finance for women, and support women-owned SMEs. MIGA has mobilized almost $1 billion to the state-owned banks *Banco Nacional de Panamá* and *Caja de Ahorros* in support of increased access to affordable housing finance to low- and middle-income households, support of working capital loans for SMEs impacted by the crisis; and provide on-lending to companies in priority sectors such as agribusiness, health, sanitation, and food imports.

86. This operation is aligned with the World Bank Group's COVID-19 Crisis Response Approach Paper. It supports the second and fourth pillars of the Approach Paper – namely, protecting poor and vulnerable people and strengthening policies, institutions, and investments for rebuilding better. This operation also supports policy initiatives across the different stages of the crisis, including relief, restructuring, and resilient recovery stages. During the relief stage, it supports prior actions on health through the COVID-19 vaccine deployment plan, social protection via enhanced targeting of the emergency cash transfer program (PPS), and modernization of the education sector through the incorporation of ICT to accelerate learning. A consistent focus exists throughout all

[67] CPF Report No. 93425-PA and PLR Report No. 123665-PA. OPCS extended the period for CPFs ending in FY21 until FY22.

these measures on protecting poor and vulnerable households. During the restructuring and recovery phases, the operation supports reforms to address long-term development challenges with a strong focus on vulnerable rural and Indigenous populations as well as the environment. In doing so, it supports Panama's ability to rebuild its economy in a way that is both more inclusive and more sustainable. In addition, the operation supports the strengthening of institutions to combat anti-money laundering, fiscal management, infrastructure through PPPs, while also contributing to global challenges through public goods, such as climate change adaptation and mitigation policy actions. It applies the following selectivity principles: (i) fighting poverty and promoting shared prosperity; (ii) sustainability; (iii) inclusion; and (iv) transparency.

87. The DPF series is a core instrument for achieving critical policy objectives 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. The COVID-19 crisis made critical challenges evident and widened pre-existing gaps, such as regional, ethnic, and rural-urban disparities as well as highlighting institutional shortcomings that limit government effectiveness. This proposed DPF series tackles these challenges, which are the most urgent that Panama currently faces. At the same time, it supports global public goods through innovative approaches, thereby transforming the crisis into an opportunity.

88. This DPF series also builds upon the reforms supported by the previous DPF series (Programmatic Shared Prosperity DPF - P166159). The previous series, approved on June 15, 2018, for example, supported the legal framework for AML/CFT, while this proposed series is supporting the enforcement and implementation of these rules. The DPF series supports and complements ongoing World Bank-financed operations and analytical work. The Panama COVID-19 Emergency Response (P173881) and its additional financing (P178011) complement this DPF, supporting response and recovery from COVID-19 and includes institutional strengthening for public health preparedness. The IPF Support to the National Indigenous Peoples Development Plan (P157575) supports Prior Action 6. 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 government 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.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

89. The 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 government. This DPF series is part of a joint financial effort that includes: a Precautionary and Liquidity Line ($2.7 billion), approved in January 2021; two operations for a total of $400 million from the Development Bank of Latin America (CAF); and an IDB budget-support operation ($350 million), and budget-support from CABEI ($250 million parallel financing to DPF1). Additionally, 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). The policy actions related to the Family Farming Law have been consulted with the Food and Agriculture Organization of the United Nations (FAO). The AML/CFT policy actions have been consulted and discussed extensively with the Central American Bank for Economic Integration (BCIE), IDB, IMF, and the Organization of American States (OEA).

90. 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 PEG 2019-2024 and the government's COVID-19 response and recovery initiatives. Selected policy actions have been subject to consultations with different government agencies, the public sector, and civil society. During the preparation of this DPF, policy actions to be supported by the operation were discussed with government agencies to ensure that they addressed the country's development priorities and challenges, and reflected a well consulted process, particularly those resulting from COVID-19 pandemic. Prior actions impacting vulnerable groups, including those designed to strengthen IPs' development, followed national deliberative and consultation processes. Discussions of the legal framework for the development of IPs was coordinated with all relevant stakeholders, including the National Council for the Integral Development of Indigenous Peoples, the Ministry of Government (MINGOB), MEF, and the Indigenous Peoples Commission in the National Congress. Support for the policy actions to expand social protection programs have also been discussed with the MIDES, MEF and with current social assistance program beneficiaries. Continuous stakeholder engagement to correct exclusion and inclusion errors have been recommended to improve the efficiency of the programs. The government approved, inter alia, Law No. 203 of 2021 (telemedicine), Law No. 294 of 2022 (Digital Equity Law), Law No. 254 of 2021 (AML) in Congress. These benefited from a public consultation process facilitated by Congress, as mandated by the Constitution. These also had input from the private sector and civil society.

91. Policy reforms on forest, land use change and agriculture have been broadly supported by donors and development partners. Policy reforms to advance forest protection and management, natural protected area management and sustainable agriculture have been supported through the Global Partnership for Sustainable and Resilient Landscapes (ProGreen). This World Bank Multi-Donor Trust Fund supports countries' efforts to improve livelihoods while tackling declining biodiversity, loss of forests, and deteriorating land fertility, which are exacerbated by a changing climate. These policy prior actions have also been advanced in close collaboration with other development partners, specifically German Agency for International Cooperation (GIZ) and FAO.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

92. 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 long term. It is estimated that this DPF supports interventions that reduce the poverty headcount by 4.0 percentage points in 2020, 3.7 percentage points in 2021, and 3.1 percentage points in 2022, thus reversing a large proportion of the unprecedented increase in poverty attributable to COVID-19. The prior actions supporting the PPS (DPF1) and NPPS (DPF2) aim to protect persons affected by the pandemic, especially persons in poverty or vulnerability, while gradually increasing efficiency by reducing assistance among those persons who work in reactivated activities.

93. **Policies in Pillar A have the potential to mitigate the poverty effect brought by the pandemic and to prevent further inequalities by targeting vulnerable groups.** Prior Action 1 establishes legislation on access to healthcare through remote means, which has the potential to improve the safety of patients at risk of contagion of COVID-19 while expanding the provision of remote health services. This prior action has direct positive health implications for those with health vulnerabilities.

94. **Prior Action 2 supports the integration of ICT into the education system to accelerate learning, particularly among Panama's poor and most vulnerable households.** The improvement of students' access to ICT and education technologies has the potential to mitigate the most important source of learning losses raised by the pandemic that has increased the already large learning gaps in Panama. It is estimated that about 261,250 school-aged children in Panama do not have access to the internet in their homes (which represents one in four 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. Moreover, the effectiveness of the implementation of the Digital Equity Law will rely not only on the technological infrastructure component but on the effectiveness of teacher training and curriculum relevance, especially in vulnerable areas. This is expected to have positive effects on the exacerbating gaps brought by the pandemic. For example, the gap in engaging in quality learning with a teacher (virtually or in-person) between children coming from high-educated and low-educated households was almost 25 percentage points in mid-2021. Efforts to overcome learning gaps purely through an internet-based approach to learning would therefore have limited effectiveness.

95. **Prior Action 3 aims to improve the targeting of the NPPS by adapting the programs to changes in the labor market and focusing on those who still experience vulnerability.** In 2020, the program's coverage – defined as the share of the population living in households where at least one member receives the transfer – reached 7 out of 10 Panamanians and 74.6 percent of those under the poverty line of 5.5 dollars (2011 PPP) a day. In 2021, the new eligibility criteria excluded workers whose economic sectors were reactivated and households of public sector employees. Simulations indicate that these measures would improve targeting by excluding the upper and middle quintiles of the income distribution while still protecting poor and vulnerable households. Coverage in the richest quintile would drop from 49.3 percent to 28.8 percent, and from 70.4 percent to 45.9 percent in the second richest quintile. At the same time, vulnerable populations would remain highly covered: the poor at 73.3 percent (vs. 74.6 percent in 2020) and the bottom 40 at 70.8 percent (vs. 77.1 percent in 2020). The program gradually exited beneficiaries that did not meet the eligibility criteria, which was updated multiple times throughout 2021. Not continuing PPS would leave many vulnerable unprotected. For this reason, the NPPS, created by the Government on January 13 of 2022, targets the 2021 beneficiaries of PPS who are still affected by the Covid-19 crisis. The program excludes workers who return to employment and those not vulnerable based on an index created by the MIDES.[68] It is estimated that by June 2022, the total coverage of the original program would be reduced to 38.8 percent while still protecting 67.5 percent of those in poverty.[69] If the program continues to improve its targeting over the year by excluding those who are not vulnerable, it is expected that the program's total coverage would be 34.8 percent, covering 67.2 percent of the poor and only 6.7 percent

[68] MIDES developed a survey to measure vulnerability. The survey includes questions about household composition, housing conditions, health, and employability (education level of the adult population and head of the household). The vulnerability index combines the household composition, housing, health, and employability dimensions, giving 50 percent of weight in the final index to the latter dimension.
[69] The simulations considered the following variables to construct the vulnerability index: education level of the adult population and household composition (female head or single-parent household).

of the population in the highest income quintile.

96. **PPS will continue having a substantive impact in the reduction of additional poverty directly attributed to COVID-19.** In 2020, nearly 118,000 are estimated to have fallen under the poverty line of $5.5 (2011 Purchasing Power Parity) per capita per day. This implies an increase in the poverty headcount to 14.8 percent in 2020, up from 12.1 percent in 2019. Yet, the PPS played a critical role in mitigating the adverse effects of the COVID-19 crisis. Without it, poverty would have increased to an estimated 18.8 percent. Among those most affected are workers in construction and retail, plus those in hotels and restaurants. Males are prominently represented in construction (93.8 percent), while women are highly represented in retail (48.4 percent) as well as hotels and restaurants (63.9 percent). In 2021, the continued mitigation power of the PPS led to poverty rates closer to pre-pandemic levels. At the national level, poverty is estimated to have decreased to 12.3 percent in 2021, close to the 12.1 rate of 2019, before the pandemic. Without the PPS, poverty could have reached 16.1 percent in 2021. However, rural areas might continue needing further assistance. The poverty rate in rural areas is expected to decrease to 32.2 percent in 2021 from 35.3 percent in 2020 due to PPS's mitigation power. However, this rate is still higher than the 28.2 percent poverty headcount of 2019 in rural areas. The 2022 NPPS is expected to still play a critical role in reducing poverty in Panama. Estimates suggest that if the program continues throughout the year, poverty could reach 10.1 percent in 2022. Had Panama not continued PPS with NPSS, poverty would have reached around 13.3 percent in 2022.

97. **The prior actions in Pillar B, which aim to strengthen institutions to support a more transparent and fiscally sustainable economic recovery, are not expected to have negative effects either on poverty or on income distribution.** However, they can bring positive welfare effects if the strengthening of institutions and increased transparency translate into a rise in 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: increased transparency of business operations (Prior Action 4); and a greater reduction of the infrastructure gap through the use of PPPs (Prior Action #5).

98. **Prior Actions 6 to 9 in Pillar C have the potential to reduce the rural-urban and the gender income gaps, resulting in a more inclusive society while making progress towards a more environmentally sustainable recovery.** Nearly 80 percent of the farmers in Panama are small family farmers; about one third of farms are managed by women, and 3 percent by Indigenous women. Family farmers are only marginally supported by the current agricultural policy, and existing gender inequalities (low labor participation, decision making power, among others) hinder rural women's ability to access to public sector investment programs and private financing. Prior Action 6 aims to reduce rural poverty and the rural-urban income gap, and pays specific attention to rural women, by establishing the Family Farming National Fund to address barriers for family farmers, particularly women and IPs. Among other measures, the established RUAF will improve the targeting of public support and services to small farmers, and specifically to women and youth, and those living in indigenous communities, and therefore contribute to addressing, inter alia, gender gaps identified in the agriculture sector. Over time, this prior action has the potential to benefit around 300,000 poor farmers in the rural areas of Panama and 280,000 indigenous peoples that live in poverty. Closing income gaps — i.e., those between poor and nonpoor rural individuals — would require a monetized equivalent of $490 per person per month in a poor farming household, equivalent to about $146 million per month. For each group of 30,000 poor farmers who overcome existing income gaps through this policy, rural poverty would reduce by 2.75 percentage points. To increase the potential positive impacts of the PA, the drafting of the law followed a participatory approach through a roundtable formed

by government institutions (MEF, MINGOB, MINSA, MEDUCA), indigenous people leaders, indigenous people organizations, and international organizations.

99. **Prior Actions 7 to 9 focus on addressing climate change mitigation and adaptation development challenges, with different likely positive benefits on the poor and most vulnerable.** Prior Action 7 aims to design and implement the National Data System for Adaptation to Climate Change. The latter would benefit agriculture-dependent districts with the highest levels of poverty by promoting readiness to cope with climate-related shocks. Prior Actions 8 and 9 aim to make progress towards a more sustainable recovery. Prior Action 8 shows evidence of progress towards decarbonization by incentivizing the transition to the electrification of ground transportation, in line with the Energy Transition Agenda, which sets policy actions toward the Sustainable Development Goals. With a smooth transition to more renewable energy, positive effects are expected in the long term for the populations benefiting from these reforms. Finally, Prior Action 9 marks an additional step toward a carbon market. When this translates to concrete action to fight climate change and the sustainable management of forests and natural resources, households in vulnerable economic conditions will positively benefit as they currently lack the mechanisms to cope with either climate change-related weather shocks or food and water scarcity.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

100. **The measures supported under the proposed DPF are not expected to have significant effects on the environment, forests, or other natural resources.** The substance of the prior actions broadly reflects the triggers envisaged during the first DPF operation, approved by the World Bank Board of Executive Directors in December 2020. These prior actions focus on similar pillars, namely protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery (Pillar A); strengthening institutions to support a more transparent and fiscally sustainable economic recovery (Pillar B); and strengthening institutions to support a more inclusive and environmentally sustainable economic recovery (Pillar C). Proposed prior actions range from those with a likely positive impact on Panama’s environment, natural resources, and forests, to those that are likely to have a neutral impact, through to those that have a potentially negative impact if direct and indirect effects from investments incentivized by policy changes are not managed adequately. Annex 4 includes the environmental assessment for each prior action, highlighting the expected effects.

101. **Panama has the requisite regulatory and enforcement systems in place to reduce any potential adverse effects**. Potential negative impacts may arise from PA5, given the potential downstream investments associated with large scale infrastructure investments traditionally financed through PPP mechanisms. In this case, however, the earlier PPP law supported through DPF1 sets out standards environmental and social due diligence based on international best practice, thus ensuring an adequate institutional and regulatory basis to minimize the likelihood of any negative effects downstream resulting from policy areas supported under this program. More broadly, beyond the context of the PPP law, Panama has adequate enforcement capacity to safeguard against any direct or indirect risks or impacts. As such, the operation is not expected to result in any significant environmental harm. The regulatory regime and enforcement capacity is outlined more fully below.

102. **A number of prior actions have the potential to deliver significant positive environmental outcomes over the long-term particularly with regard to low-carbon and climate-resilient development.** PA7 sets out the

establishment of a National System of Data for climate adaptation and the establishment of a Climate Change Adaptation Fund to integrate climate resilience in national development. PA8 and PA9 focus on decarbonizing Panama's economy through carbon mitigation efforts in the transport and energy sectors, as well as the creation of an enabling framework to support market-based mitigation mechanisms. Policy interventions supported under this operation are expected to bring mitigation benefits locally – with positive co-benefits to human health and well-being through improved air quality and a longer-term trend in decarbonizing economic activity, especially through future offsets for the private sector. These interventions will likely have a significant positive impact in terms of reduced air pollution at the national level, while generating benefits as a global public good in supporting Panama's Nationally Determined Contribution under the global climate regime, in line with commitments made in the Paris Agreement.

103. 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 emanated from prior legislative and institutional developments, notably the 1998 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 NGOs, among other key stakeholders. The law provides general policy guidelines for both public and private institutions and sets out the role of MiAmbiente, the Inter-institutional Environmental System - SIA, and other government entities and coordinating bodies.

104. Effective environmental protection has increased as a national priority over the last two decades. Environmental governance was strengthened in 2015 with the creation of the 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 government to provide a healthy environment and the principle of incorporating environmental considerations into 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 the former National Environmental Authority (ANAM) to make environmental coordination and compliance more influential and effective in national policymaking. Miambiente ensures robust environmental governance and has the capacity to manage potential negative effects that any prior actions supported under the DPF may generate.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

105. The main strengths of Panama's Public Financial Management (PFM) system are characterized by: (i) timely review and approval of the national budget by the National Assembly; (ii) good and timely public debt management and reporting; (iii) information on government expenditure to the public that is readily available; and (iv) effective payroll controls.

106. However, the ongoing PFM dialogue has identified several areas that would benefit from improvement: (i) budget credibility is affected by significant and numerous budget modifications throughout the year; (ii) the 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) more accurate and comprehensive budgetary and financial reporting is needed, including the implementation of new asset management framework; (v) the central government is still struggling to produce a set of consolidated financial statements; and (vi) there is need for a strengthened internal and external audit functions as well as the implementation of International Standards of Supreme Audit Institutions (ISSAI).

107. Government commitment to support PFM reforms. Over the last few years, Panama has embarked on a set of reforms to address its PFM weaknesses. Notably, the government is in the final stages of fully introducing a new Integrated Financial Management System (ISTMO), which aims to provide a modern platform that integrates accounting, budgetary, and treasury functionalities in the public sector.[70]

108. Panama's annual budget is published promptly in the Official Gazette after legislative approval. The annual published budget is publicly available online, as are in-year budget execution reports.[71]

109. Procurement processes in Panama are largely competitive and transparent and have been improving overtime. The government spent $15.3 billion on 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. The system was used to advertise the procurement opportunities and to contract awards. It was also accessible to anyone interested in viewing these activities. During this period, the procurement through bidding by best value increased up to 45 percent of the awarded amount. In addition, the process of quote requests registered the greatest volume of processes, at 65 percent of the total. Furthermore, 5 percent of the awarded amount was through framework agreements, which represented almost 25 percent of all transactions. Panama is improving its procurement processes in various ways, including through the approval of a new law, the launch of a new version of the system, and analysis of procurement outcomes. The new procurement law enhances policies and procedures, with a focus on overcoming very common obstacles in the government's 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 improvement of those already in place. The new PanamaCompra 3 system is being rolled out to all the central government agencies since January 2021. Despite all this progress, there is still room for improvement in terms of practices to address inefficiencies in the system. This could lead to important savings that have been estimated between 16 and 22 percent of the annual amount awarded through public contracts

[70] The WB continues to assist the GoP in producing consolidated financial statements for the central government and improved procurement processes through Development Policy Operation: Panama Pandemic Response and Growth Recovery I (P174107- Loan IBRD-9178) DPF I program implementation and just-in-time technical assistance.
[71] https://www.gacetaoficial.gob.pa/Busqueda-Avanzada

($2.5 to $3.4 billion). The country also has an agenda to improve integrity of its procurement processes as several problems arose with pandemic-related procurement.

110. Based on the analysis of conclusions of the latest Public Expenditure and Financial Accountability (PEFA) Report[72] and ongoing PFM dialogue, it is confirmed that budget resources management by Panama's Central Government PFM system and its commitment to PFM reform are reliable to support this operation.

111. The most recent IMF Safeguards Assessment[73] was reviewed to assess foreign exchange control environment in place at *Banco Nacional de Panama* (BNP). Based on this review, it is concluded that controls over FOREX do not pose major risks to the achievement of PDO.

112. The overall fiduciary risk to this operation arising from Panama's PFM, its FOREX internal control, and its public procurement system is moderate, and no additional fiduciary risk mitigation measure is deemed required.

113. The proposed loan will follow the World Bank's standard disbursement procedures for development policy support. Upon approval of the operation, effectiveness of the Loan Agreement, and the submission of a signed withdrawal application, the proceeds of the loan will be disbursed into MEF Treasury Single Account (TSA), which will form part of the country's Foreign Exchange Reserves. This account is denominated in US dollars, which is legal tender in the country. It 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). Within thirty (30) days of the withdrawal of the DPF proceeds, the Borrower shall report to the Bank: (i) the exact sum received into said account; (ii) the details of the account to which the local currency equivalent of the loan proceeds was credited; and (iii) 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.[74] If any portion of the loan is used to finance excluded expenditures as so defined in the General Conditions, the Bank shall require the Borrower to refund the amount and such payments made for excluded expenditures will be cancelled.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

114. 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: MINSA, Institute of Research on Health (*Instituto Commemorativo GORGAS – COVID19 Monitoring*), MEDUCA, Ministry of the Presidency, MIDES, and AIG; (ii) Pillar B: SNAPP, Banking Superintendence, and MEF – through the General Directorate of Revenues (*Dirección General de Ingresos),* National Directorate of Accounting *(Dirección Nacional de Contabilidad)* and General Directorate of Public Procurement *(Dirección General de Compras Públicas,* DGCP); and (iii) Pillar C: DA, Vice-Ministry of Indigenous Affairs, Secretariat of Energy, and 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

[72] The PEFA report was conducted jointly by the WB and the IDB and published in July 2013.
[73] IMF Safeguards Assessment Final Report, September 29, 2020.
[74] 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.

throughout preparation and collaborate with MEF for the monitoring of indicators.

115. 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 are 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 does not seem to compromise the information. The operation will be monitored by administrative data maintained by the government agencies involved in the operation. In some cases, multiple government agencies might be involved in the implementation of the policy action, such as the prior action related to community land titles for IPs. In such cases, MEF, 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 Government, as well as the National Congress and representatives of IPs) to monitor the preparation and strengthening of the indicative trigger. When this occurs, data to 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 (SINIP) 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 trouble in retrieving and providing this information to the Bank during the preparation of the operation.

116. 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 Project Development Objective may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank'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 Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of the Bank's 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.

SUMMARY OF RISKS AND MITIGATION

117. The overall risk of the operation is Substantial, reflecting the importance of institutional and stakeholders' risks. The risk categories assessed as substantial are institutional capacity for implementation and sustainability and stakeholders' risks, even after accounting for mitigation measures already in place. These include strong joint dialogue with the IMF on macroeconomic policy and AML/CFT issues, together with cooperation with other development partners. They also include the provision of technical assistance to the government on the main policy areas of this operation, and a combination of public outreach and political economy analysis to mitigate stakeholder risk. A brief description of the main risks and mitigation measures for each of the above-mentioned categories follows.

118. The risk associated with institutional capacity for implementation and sustainability is rated substantial.

The relatively low technical capacity of government institutions, combined with a complex reform program that requires coordination across government agencies, represents a substantial risk for implementation and sustainability of the reform program. The government's capacity for the implementation of reforms, as evidenced by the Worldwide Governance Indicators and, in particular, the Government Effectiveness Indicator (GEI), is considered relatively low. Panama ranks in the 55th percentile in the GEI, similar to countries with lower income levels and far from high countries in the region like Chile (82) and Barbados (74). In addition, Panama's performance has weakened over the past decade. The country's institutional capacity constraints are exacerbated when multiple government agencies are involved in the implementation of policy actions. These risks are mitigated in a number of ways, including by: (i) implementing a consistent and strong engagement and dialogue in the reform-implementing sectors and provision of comprehensive technical assistance, focused on the most complex policy actions; and (ii) regular coordination and capacity building efforts led by MEF to ensure the reform program is moving forward satisfactorily.

119. Stakeholder risk is rated substantial. The stakeholder risk is substantial as some of the supported reforms, such as strengthening of AML/CFT controls, could trigger opposition from powerful interest groups. An additional risk stems from the limited resources that may be available for consensus-building to ensure the implementation of the law that establishes actions for the development of IPs, which may trigger protests from the Indigenous community. These risks are being mitigated through a combination of public outreach and political economy analysis, as well as by the gradual implementation of key measures (particularly in the transparency agenda) and continued engagement and consultations on themes such as IPs, environment, and procurement. Effective community outreach is taking place through the participation of the National Council for Indigenous Peoples Development (*Coordinadora Nacional de Pueblos Indígenas de Panama*, CONAPIP) and through the provision of redress mechanisms. The government is ensuring consensus in its Executive and Legislative branches, as well as with civil society and particularly the National Council for Indigenous Peoples Development.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
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 for DPF 1	**Prior Actions 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.	**Prior Action #1:** The Borrower has enacted a law establishing guidelines for the development of remote health services (telehealth) to improve access in the provision of healthcare services, as evidenced by Law No. 203 published in the Official Gazette on March 18, 2021.	**Results Indicator #1:** Health regions with strengthened institutional capacity for the provision of healthcare services.[75] (number)	Baseline: 0 (2019)	Target: 10 (out of 15) (2023)
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	**Prior Action #2.** The Borrower has approved the legal framework to integrate information and communication technologies into the education system to accelerate learning, particularly among poor and highly vulnerable students, as evidenced by Law No. 294 published in the Official Gazette on April 6, 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 2022-2023 (unique users, at least one	Baseline: 0 (2019)	Target: 50,000[76] (2023)

[75] A health region is considered to have improved institutional capacity when the following conditions have been met: (1) new tele-consultations services are provided to at least 1,200 persons; and (2) the number of interchangeable generic drugs acquired by the health region increased compared to 2019.
[76] 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.

Prior Actions and Triggers		Results		
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.		access per month) (number).		
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. **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,	**Prior Action #3**. The Borrower has taken measures to transition from *Panama Solidario* to a temporary social protection program targeted at individuals who are still in vulnerability as a consequence of the COVID-19 crisis, as evidenced by Executive Decree No. 11, dated January 13, 2022 and published in the Official Gazette on January 14, 2022.	**Results Indicator #3**: Population aged 18 or older covered by a temporary social protection program (percentage)	Baseline: 26 (Dec 2021)	Target: 15 (2022)

Prior Actions and Triggers		Results		
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 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	**Prior Action #4.** The Borrower has taken measures to further enhance the transparency of business operations by: (a) establishing measures for the verification on a risk-based approach and update of information entered in the UBO registry as well as dissuasive administrative sanctions for non-disclosure and/or delayed disclosure; (b) amending legislation to improve access in the Borrower's territory to accounting records of offshore business operations and strengthen administrative sanctions for non-compliance with exchange of information requests, as evidenced, respectively, by: (i) Executive Decree No. 15, dated March 30, 2022 and published in the Official Gazette on the same date; Executive Decree No. 13, dated March 25, 2022 and published in the Official Gazette on the same date; and Articles 30-43 and 44 of Law No. 254 published in the Official Gazette on November 11, 2021; and (ii) Articles 17-23 and 45 of Law No. 254 published in	**Results Indicator #4**: Legal persons included in the ultimate beneficial ownership (UBO) registry and risk-based verifications conducted (percentage).	Baseline: 0 (2019)	Target: 80 (legal persons) and 100 (high-risk persons inspected) (2023)

Prior Actions and Triggers		Results		
Resolution No. 8 dated June 4, 2020 and published in the Borrower's Official Gazette on June 26, 2020.	the Official Gazette on November 11, 2021.			
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. **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.		**Results Indicator #5:** Central government institutions using e-procurement system (*PanamaCompra 3)* (number).	Baseline: 0 (2019)	Target: 90 (2023)
		Results Indicator #6: Publication of consolidated financial statements (number).	Baseline: 0 (2019)	Target: At least 4 (2023)
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	**Prior Action #5.** The Borrower has further strengthened the PPP regulatory framework by approving policy guidelines and methodologies for the: (a) evaluation, assignation and valorization of PPP risks; and (b) the	**Results Indicator #7:** Private sector financing mobilized to fund infrastructure services under the PPP law ($).	Baseline: 0 (2019)	Target: 500 million (2023)

Prior Actions and Triggers		Results		
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.	analysis of value for money of PPPs, as evidenced, respectively, by: (i) the Inter-Ministerial PPP Committee's Resolution No. ER-02-L1-2022 including the manual for the evaluation, assignation and valorization of risks (version 1.0-2022, sections 1-4.2.2), dated March 31, 2022, and published in the Official Gazette on April 28, 2022; and (ii) the Inter-Ministerial PPP Committee's Resolution No. ER-03-L2-2022 including the manual for value for money analysis (version 1.0-2022) dated March 31, 2022, and published in the Official Gazette on April 28, 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 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.	**Prior Action #6.** The Borrower has supported the integral development of rural vulnerable groups, with a particular focus on indigenous peoples, through: (a) the approval of a national legal framework establishing actions for inclusion of indigenous peoples' priorities in public investment planning, implementation and monitoring, through participatory processes and in line with international good practices, and promoting local economic development opportunities; (b) the issuance of a regulatory decree to the Family Farming Law, including requirements to ensure that the poorest	**Results Indicator #8:** Family farmers benefiting from the Family Farming National Fund (number and percentage). **Results indicator #9:** Programs registered in SINIP that have been designed in consultation with the IP Council (number)	Baseline: 0 (2019) Baseline: 0 (2019)	Target: 5,000, of which 40 percent are women-led households and 40 percent are Indigenous Peoples (2023) Target: 12 (2023)

Prior Actions and Triggers		Results		
	family farmers, and particularly women, youth and indigenous people are beneficiaries of public support in the agriculture sector, as evidenced, respectively, by: (i) Law No. 301 published in the Official Gazette on May 12, 2022; and (ii) Executive Decree No. 112, dated July 9, 2021 and published in the Official Gazette on the same date.			
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.	**Prior Action #7.** The Borrower has created the National System of Data for Adaptation to Climate Change, mandated the development of the National System of Monitoring, Evaluation and Report of Adaptation, taken measures for the establishment of the Climate Change Adaptation Fund and created the national program Build Your Resilience, as evidenced by Titles I, II, Chapter III of Title III, Title IV and Title VI of Executive Decree No. 135, dated April 30, 2021 and published in the Official Gazette on May 13, 2021.	**Results Indicator #10:** Total area of national protected areas under enhanced conservation and social inclusion regulation (hectare).	Baseline: 0 (2019)	Target: 1,000,000 (2023)
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	**Prior Action #8.** The Borrower has advanced the decarbonization agenda by enacting a law that incentivizes electric mobility for ground transportation, as evidenced by Law No. 295 published in the Official Gazette on April 25, 2022.	**Results Indicator #11:** Increase in electric vehicle registrations (number).	Baseline: 200 (2020)	Target: 500 (June 2023)

Prior Actions and Triggers		Results		
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.				
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	**Prior Action #9.** The Borrower has issued a decree establishing the objectives, requirements, and a governance structure for the gradual and progressive development of the domestic carbon market, as evidenced by Executive Decree No. 142, dated December 9, 2021 and published in the Official Gazette on the same date.	**Results Indicator #12:** GHG emissions regulated under economy-wide[77] policy instruments (percentage).	Baseline: 0 (2019)	Target: 100 (2023)

[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
February 3, 2022

This letter updates the assessments contained in the 2021 Article IV Consultation staff report for Panama (published on July 30, 2021) and the First Review under the Arrangement under the Precautionary and Liquidity Line (PLL) staff report (published on August 2, 2021).

1. **Economic activity is recovering strongly after the sharp contraction in 2020 amid the global COVID-19 pandemic.** Despite continuing challenges from the pandemic, a resolute vaccination program and sound policy measures have supported a strong recovery in economic activities, with output expanding by 40 and 25½ percent (y/y) in Q2-2021 and Q3-2021, respectively, and the monthly index of economic activity (IMAE) growing at around 20 percent (y/y) in November 2021. IMF staff estimates the economy to have expanded by 12 percent in 2021, while inflation rose to 2½ percent by the year-end amid temporary supply shocks. The current account is estimated to have switched back to a deficit of 3¾ percent of GDP in 2021 due to pent-up demand for imports. Fiscal consolidation is underway, with the 2021 nonfinancial public sector (NFPS) deficit estimated to have reached 6¾ percent of GDP, below the limit established by the fiscal rule. The banking sector continues to be resilient with high levels of capital and liquidity, but challenges remain following the end of the loan servicing moratorium in June 2021. Panama continues making some progress on financial integrity but remains on the FATF grey list.

2. **The outlook remains positive as the economy is expected to continue recovering, but risks are elevated and tilted to the downside.** Despite the Omicron variant, real GDP is expected to grow 5 percent in 2022 and in subsequent years (as this is the IMF staff's potential growth rate estimate), while inflation is expected to moderate to 2 percent over the medium-term. The current account deficit will gradually fall to 2½ percent of GDP over the medium term as private investment moderates and public savings improve as a percent of GDP. Public debt will fall as a percent of GDP as the deficit of the NFPS gradually adjusts in line with the fiscal rule, first to 4 percent of GDP in 2022 and then to 1½ percent of GDP by 2025. The economic outlook continues to be subject to an unusual degree of uncertainty arising from the impact of the pandemic on the global economy and Panama, including from additional mutations of the COVID-19 virus which may curtail further the effectiveness of vaccines and derail economic recovery. The longer Panama stays on the FATF grey list, the higher the risk of potential adverse effect on correspondent banking relations and credit channels. If FATF were to put Panama on its blacklist, there could be serious implications for financial stability.

3. **Policy implementation in most areas has been in line with the objectives envisaged under the PLL arrangement.** The IMF Board approved the authorities' request for a two-year PLL arrangement for 500 percent of quota (SDR 1.88 billion) in January 2021 to strengthen macroeconomic and financial stability and serve as insurance against extreme adverse risks related to the pandemic. The PLL arrangement remains precautionary, and the authorities have not drawn any PLL resources. Performance under the PLL arrangement has been satisfactory in most areas. Fiscal policy has been implemented in line with the modified fiscal rule that ensures

debt sustainability and a declining path of the debt to GDP ratio. Public finances were further strengthened with the recent agreement on royalties with the mining company, which would ensure additional revenues of at least US$375 million a year (over ½ percent of GDP) during the life of the mine (about 35 years). The authorities implemented a loan servicing moratorium for most of 2020 and part of 2021 to ease the burden on borrowers, which the banks have been able to manage so far given their large financial buffers, there are indications of a significant increase in the number of restructured loans remaining current, but the situation needs to be closely monitored. Labor contracts were temporarily suspended during the pandemic to avoid massive bankruptcies, while social programs were strengthened to support the unemployed and the poor. There have been significant improvements on data adequacy issues, including progress towards subscribing to the Special Data Dissemination Standard (by enhancing the coverage, periodicity, and timeliness of data reporting). The authorities are working to strengthen their AML/CFT framework, including by: (i) enacting law 254 to address some of FATF's concerns; (ii) adopting an updated sectorial risk assessment with assistance from the World Bank; and (iii) expanding corporate sector supervisory activities. However, there have been delays in implementing the financial integrity policy agenda, which has led to a delay in completing the second PLL review.

4. **Policy discussions on the Second PLL Review are ongoing.** The IMF Executive Board gave a generally positive assessment of Panama's policies in the context of the 2021 Article IV Consultation and the First Review of the PLL Arrangement. The authorities have signaled their commitment to implementing the policy agenda supported by the PLL arrangement, but the implementation of the financial integrity measures has been subject to unfortunate delays. Once significant progress is achieved in strengthening the AML/CFT framework, the second PLL review will be submitted to the IMF Board for consideration.

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Table 1. Panama: Selected Economic and Social Indicators, 2017–27

Population (millions, 2020)	4.3	Poverty line (percent, 2017)	20.7
Population growth rate (percent, 2020)	1.4	Adult literacy rate (percent, 2019)	95.7
Life expectancy at birth (years, 2019)	78.5	GDP per capita (US$, 2020)	12,616
Total unemployment rate (October, 2021)	11.3	IMF Quota (SDR, million)	376.8

					Est.	Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					(Percent change)						
Production and prices											
Real GDP (2007 prices)	**5.6**	**3.7**	**3.0**	**-17.9**	**12.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Consumer price index (average)	0.9	0.8	-0.4	-1.6	1.6	2.4	2.2	2.0	2.0	2.0	2.0
Consumer price index (end-of-year)	0.5	0.2	-0.1	-1.6	2.6	2.5	2.0	2.0	2.0	2.0	2.0
Output gap (% of potential)	2.4	4.5	7.4	-14.2	-6.5	-4.6	-2.9	-1.2	0.0	0.0	0.0
Demand components (at constant prices)											
Public consumption	**6.4**	**6.5**	**4.9**	**16.2**	**8.1**	**-4.6**	**-2.2**	**1.5**	**2.1**	**3.2**	**3.2**
Private consumption	3.1	2.3	4.9	-15.5	2.9	3.1	2.4	3.8	4.5	5.0	5.0
Public investment 1/	-20.7	6.9	1.0	-23.4	0.9	13.0	5.4	4.4	2.3	2.7	2.7
Private investment	14.9	-0.4	-0.9	-52.3	66.6	10.6	7.9	7.4	7.2	4.3	4.2
Exports	5.0	5.3	1.2	-20.6	13.9	11.3	8.8	6.9	7.1	9.5	10.5
Imports	-4.3	4.5	-2.5	-34.0	39.4	11.5	5.9	5.0	6.1	9.5	9.5
Financial sector											
Private sector credit	**6.5**	**4.5**	**2.4**	**-2.6**	**3.2**	**7.0**	**7.1**	**7.1**	**7.1**	**7.1**	**7.1**
Broad money	5.2	2.8	2.3	9.5	5.4	7.0	7.1	7.1	7.1	7.1	7.1
Average deposit rate	1.6	1.8	2.1	1.9	1.6	2.0	2.7	3.3	3.8	3.8	3.8
Average lending rate	7.9	7.7	7.9	7.8	7.7	6.8	7.5	8.1	8.6	8.6	8.6
					(In percent of GDP)						
Saving-investment balance											
Gross domestic investment	**41.7**	**41.5**	**38.3**	**24.1**	**32.5**	**34.3**	**35.1**	**35.8**	**36.2**	**35.9**	**35.6**
Public sector	5.9	6.2	6.0	5.2	4.7	5.1	5.1	5.1	4.9	4.8	4.7
Private sector	35.8	35.3	32.3	18.8	27.8	29.3	30.0	30.7	31.3	31.1	30.8
Gross national saving	35.7	33.9	33.3	26.3	28.8	30.6	31.8	32.6	33.4	33.2	32.9
Public sector	4.2	4.2	2.7	-4.0	-2.7	0.2	1.7	2.4	3.1	3.5	3.6
Private sector	31.5	29.7	30.6	30.3	31.5	30.5	30.1	30.2	30.3	29.7	29.4
Public finances 1/											
Revenue and grants	**22.0**	**22.0**	**20.9**	**21.4**	**21.9**	**24.3**	**24.3**	**24.6**	**24.9**	**24.9**	**24.9**
Expenditure	24.2	24.9	24.0	30.1	28.1	28.0	27.0	26.4	26.0	25.8	25.7
Current, including interest	17.0	17.2	17.5	24.9	23.4	22.9	21.9	21.4	21.1	21.0	20.9
Capital	6.9	6.6	5.8	5.2	4.7	5.1	5.1	5.1	4.9	4.8	4.9
Overall balance, including ACP	-2.2	-2.9	-3.2	-8.7	-6.2	-3.7	-2.7	-1.8	-1.1	-0.9	-0.9
Overall balance, excluding ACP	-2.2	-3.2	-3.6	-9.9	-6.8	-4.0	-3.0	-2.0	-1.5	-1.5	-1.5
Total public debt											
Debt of Non-Financial Public Sector 2/	**35.3**	**37.3**	**42.1**	**65.6**	**60.4**	**60.0**	**59.4**	**58.0**	**56.0**	**54.1**	**52.3**
External	29.1	31.1	35.2	54.1	52.3	53.2	53.2	52.4	50.9	49.7	48.1
Domestic	6.1	6.3	6.9	11.5	8.1	6.8	6.2	5.6	5.2	4.5	4.2
Debt of ACP	4.4	4.2	3.8	4.2	3.4	2.8	2.3	1.8	1.4	1.1	0.7
Other 3/	3.4	4.2	4.1	5.1	4.5	4.2	3.9	3.6	3.4	3.2	3.0
External sector											
Current account	**-6.0**	**-7.6**	**-5.0**	**2.2**	**-3.7**	**-3.7**	**-3.3**	**-3.1**	**-2.8**	**-2.8**	**-2.6**
Net exports from Colon Free Zone	3.0	2.5	2.7	3.1	2.7	2.7	2.8	2.8	2.9	3.2	3.5
Net oil imports	3.8	4.4	3.8	1.7	2.8	3.3	2.9	2.7	2.6	2.4	2.4
Net foreign direct investment inflows	7.1	7.5	5.6	1.2	3.2	6.0	7.5	7.5	7.5	7.5	7.5
External Debt	149.6	153.0	156.3	198.0	181.0	177.1	173.5	168.9	166.2	163.8	161.4
Memorandum items:											
GDP (in millions of US$)	62,203	64,929	66,984	53,977	61,377	65,668	70,330	75,323	80,671	86,399	92,533

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. These estimates are preliminary.

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
Despacho Viceministerio de Economía
Dirección de Financiamiento Público

18 de mayo de 2022
MEF-2022-27421

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

Dear Mr. Malpass:

I would like to address you with the purpose of submitting to the Bank's consideration, a financing request for the sum of up to two hundred fifty million dollars of the United States of America with 00/100 (US$250,000,000.00); for the purposes of supporting financially the General State Budget for fiscal year 2022 and other fiscal periods based on a program of policies known as the "Panama Pandemic Response and Growth Recovery Development Policy Loan 2". The objective of this operation is to protect human capital during the COVID-19 crisis, while strengthening institutions to promote the accumulation of human capital and support a more inclusive and sustainable economic recovery.

Panama, like the rest of the countries in the region, was seriously affected by the evolution of the Covid-19 Pandemic since 2020. However, with the start of the pandemic, the government implemented an emergency plan with the main objective of safeguarding lives of the population and containing the rapid spread of the virus through the implementation of mobility restrictions and suspension of economic activities. The health crisis affected the economy, public finances, employment and the level of well-being of the country's inhabitants negatively impacting the Gross Domestic Product (GDP), which contracted by 17.9%.

In addition, to offset the fall in GDP, the Government brought resources from the international markets to obtain financing in order to replace the fall in current revenues. The resources obtained made it possible to maintain the budget established for 2020 and 2021 and to develop mechanisms to support liquidity and bank credit, to sustain the productive fabric of micro, small and medium companies, giving rise to a policy of automatic stabilizers (anti-cyclical policy) and avoiding further deepening of the economic crisis. The 2020 and 2021 budgets were also restructured, to allocate additional resources to the health sector and through our flagship program: Panamá Solidario, which provided in-kind and cash transfers to those most affected by the pandemic.

These measures along with a successfully implemented vaccination program, which began in 2020 by negotiating vaccine contracts with the main suppliers before they were available, allowed the gradual reduction of the mobility restriction measures and led to the reactivation of economic activities. The prudent macro-fiscal management led to a recovery of economic activity in 2021 where GDP grew by 15.3% driven by mining, construction and trade. Labor markets have shown some signs of recovery however, informality and self-

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employment have increased. Poverty rates are declining but remain well above pre-crisis levels, justifying the targeted continuation of some of the mitigation policies. The fiscal deficit was reduced in 2021, below the deficit reduction path established in the revised Fiscal and Social Responsibility Law (7.5% of GDP by 2021).
This year 2022 will continue to be a very challenging year for Panama, as for the rest of the world. The Government continues with its fiscal consolidation efforts amid the lingering effects of the COVID-19 crisis; global inflation and monetary tightening in most emerging and developing economies. The 2022 annual financing plan foresees gross financing needs of US$4.0 billion in both internal and external financing. The government has already obtained US$2.5 billion from private markets through a Global Bond issuance and plans to obtain the rest from domestic financing and multilateral creditors, including this operation.

Additionally, in the context of the pandemic crisis, the war in Ukraine is added, creating an economic challenge, by increasing the prices of raw materials, reducing growth and world trade, and has affected the financial markets by increasing sovereign risks and reducing liquidity around the world. The war in Ukraine is spreading to the entire region including in Panama, with the pressure of the increase in fuel prices and their derivatives, metals and food, which is increasing inflation and the current account deficit.

Notwithstanding the impact of the COVID-19 crisis, the war in Ukraine and the government's efforts to mitigate its impacts, the government continues with a medium- and long-term policy agenda, for which it relies on the International Bank for Reconstruction and Development (IBRD), as a key partner, to support the implementation of the Republic of Panama's policy program, organized in three fundamental areas that are detailed below:

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

This pillar includes measures to continue protecting human capital during the COVID-19 pandemic, as well as medium-term institutional policies aimed at strengthening the quality and equity of the provision of services in health and education during the recovery.

The Government of the Republic of Panama introduced policies in the health sector to improve prevention, diagnostic, and treatment of health conditions, including COVID-19. The Asamblea Nacional (National Assembly) issued the Law No. 203 of 2021, published in the Official Gazette 29244-A on March 18th, 2021, which establishes guidelines for the development of key telehealth activities and instruments, such as electronic prescriptions (e-Prescriptions) and digital disability certificates, as well as provisions on prior informed consent and personal data protection for beneficiaries.

The approval of the Digital Equity Law No. 294, published in the Official Gazette 29511-B on April 6th, 2022; enhances the equity in the educational system through the improvement of flexible and pertinent teaching and learning models, with innovative delivery forms that facilitate the acquisition of skills and competences throughout educational trajectories.

The government adopted social protection measures during the COVID-19 crisis to protect the people affected by the pandemic, especially the poor and vulnerable. As the economy started recovering, the government adjusted the nature of the support to better reach those which still in need. In particular, it established a new temporary program, *New Plan Panama Solidario,* aiming to continue providing support to individuals who are still in poverty or vulnerability because of the pandemic and improve their labor market inclusion.

Strengthening institutions to support a more transparent and physically sustainable economic recovery.

This pillar presents efforts to increase 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 have temporary increase the fiscal deficit and public debt. Dwindling government revenues, due to the compound effect of the sharp economic slowdown and weakness in tax collections, it has expected to lead to a 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. During the consolidation period, 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 Republic of Panama has identified the transparency of commercial operations in its territory and, its capacity to combat tax evasion and illicit flows as key priorities. In this context, it has built on the promulgation of the Law 254 of November 11th, 2021 (Official Gazette 29413-B on November 11th, 2021) 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 by: introducing the necessary mechanisms to ensure that information entered in the UBO registry be verified on a risk-based approach, and be updated in as timely a fashion as possible, and that sanctions for non-disclosure and/or delayed disclosure be dissuasive; and amending legislation (Law No.52 of 2016), to improve access in Panama to accounting records of offshore business operations and to strengthen sanctions for non-compliance with Exchange of Information (EOI) requests.

The government has also adopted 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 93 of September 19th, 2019 dictated by the Regime of Public-Private Partnership (PPP) and the general regulation; the operation will support specific measures for the: (a) evaluation, assignation and valorization of PPP risks; and (b) the analysis of value for money of PPPs. The expected result is to mobilize at least US$500 million in private capital.

It also worth mentioning that the government has progressed in the implementation of reforms to improve transparency and accountability of public resources by: (i) upgrading its procurement system supporting the final phases of the roll-out of the new, latest-generation, electronic-procurement platform (*Panama Compra 3*) to all government agencies covered by the Law, including mandating its use by an established deadline; (ii) making progress on the implementation of the institutional plan, mandated by Ministerial Resolutions No. MEF-RES-2020-2189 and MEF-RES-2020-2192 of 2020, to ensure the generation of consolidated financial statements for the central government, and has as a result produced consolidated financial statements for 2017 and submitted them to the Contraloría General de la República (Comptroller General's Office) for their audit process, prior to publication.

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

This pillar combines policies to promote inclusion of rural and indigenous communities while supporting Panama climate change adaptation and mitigation objectives. The COVID-19 crisis brings an opportunity to support policies 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 policies to ensure these people will have the assets and support to benefit more in the recovery.

The government continued the implementation of the promulgated law for the development of family farming by issuing a regulatory decree to provide family farmers, particularly women and Indigenous Peoples, with financial and technical support to improve the productivity of their agriculture land and to increase their food and nutritional security in a sustainable way. 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. In addition, the government approved the Law No. 301, published in the Official Gazette on May 12, 2022, which promotes the development of Indigenous Peoples. This Law demonstrates Panama's commitment to improve opportunities for Indigenous Peoples and establishes institutional mechanisms for their participation in the design and implementation of policies.

In parallel, the government, through the Ministry of the Environment, established the National System of Data for Adaptation to Climate Change, the development of the National System of Monitoring, Evaluation and Report of Adaptation, the establishment of the Climate Change Adaptation Fund and created the national program Build your Resilience.

As part of the government's efforts to promote a greener development and decarbonize Panama, approved the Law No.295 of April 21st, 2022, published in Official Gazette 29523-A on April 25th, 2022 (Law of Electric Mobility of Transport), that incentivizes electric mobility for ground transportation. The government continue contemplating measures to steer subsidies towards cleaner energy alternatives, but the implementation of these measures has been delayed in the context of the COVID-19 crisis.

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18 de mayo de 2022
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As part of its continued efforts to transition to a low-carbon economy, the government has advanced on the development of the domestic carbon market and launched 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 2023.

Finally, the Government of Panama is committed to an ambitious policy agenda, aimed at reducing the negative effects of COVID-19, on one hand; and to achieve recovery, economic stability, climate change adaptation and mitigation measures, as well as the protection of the most vulnerable social groups and sectors, on the other hand. 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 World Bank, and we await the pertinent steps in order to achieve this operation.

Sincerely,

Eneida Medrano de González
Viceminister of Economy

EMdG/EPCJ/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 a law establishing guidelines for the development of remote health services (telehealth) to improve access in the provision of healthcare services.	Neutral impact with potential positive impacts in terms of reduced travel time and related emissions in the transport sector	Neutral to positive effects as the legislation has the potential to improve the safety of patients at risk of contagion of COVID-19 while expanding the provision of health services.
Prior Action #2. The Borrower has approved the legal framework to integrate information and communication technologies into the education system to accelerate learning, particularly among poor and highly vulnerable students.	Likely neutral impacts with potential positive impacts in terms of reduced travel time and related emissions in the transport sector.	Moderate to low positive effects (both in the short and long term). Group most affected: school-age poor and vulnerable students.
Prior Action #3. The Borrower has taken measures to transition from *Panama Solidario* to a temporary social protection program targeted at individuals who are still in vulnerability as a consequence of the COVID-19 crisis.	Likely neutral impacts.	Large positive social effects (mostly in the short term). Group most affected: (i) poor households, particularly those in informal employment not receiving benefits from existing transfers, and (ii) vulnerable households most affected by the crisis.
Pillar B - Strengthening institutions to support a more transparent and fiscally sustainable economic recovery		
Prior Action #4. The Borrower has taken measures to further enhance the transparency of business operations by: (a) establishing measures for the verification on a risk-based approach and update of information entered in the UBO registry as well as dissuasive administrative sanctions for non-disclosure and/or delayed disclosure; (b) amending legislation to improve access in the Borrower's territory to accounting records of offshore business operations and strengthen administrative sanctions for non-compliance with exchange of information requests.	Likely neutral impacts.	Neutral poverty effects, plus low to neutral distributional effects (this prior action needs to be effective and increased revenues used for poverty reduction or social aims). Groups most affected: high income earners and business conducting tax evasion. Likely long-run positive effects in the overall economy if tax evasion is reduced.
Prior Action #5. The Borrower has further strengthened the PPP regulatory framework by approving policy guidelines and methodologies for the: (a) evaluation, assignation and valorization of PPP risks; and (b) the analysis of value for money of PPPs.	Likely positive impacts by embedding best international practice in PPP policy including efficiency measures in public infrastructure maintenance.	Neutral to low poverty effects and distributional effects (prior action needs to be effective and increase revenues used for poverty reduction or social aims).
Pillar C – Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery		

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Prior Action #6. The Borrower has supported the integral development of rural vulnerable groups, with a particular focus on indigenous peoples, through: (a) the approval of a national legal framework establishing actions for inclusion of indigenous peoples' priorities in public investment planning, implementation and monitoring, through participatory processes and in line with international good practices, and promoting local economic development opportunities; (b) the issuance of a regulatory decree to the Family Farming Law, including requirements to ensure that the poorest family farmers, and particularly women, youth and indigenous people are beneficiaries of public support in the agriculture sector.	Positive effects overall, but with potential negative environmental effects from encroachment but these are managed explicitly in the Law itself, balancing conservation and livelihoods. Additional management measures include the strong national regulatory framework to assess and manage any potential environmental impacts.	Moderate to high positive effects. Group most affected: Poor rural families and their households, including IPs and women.
Prior Action #7. The Borrower has created the National System of Data for Adaptation to Climate Change, mandated the development of the National System of Monitoring, Evaluation and Report of Adaptation, taken measures for the establishment of the Climate Change Adaptation Fund and created the national program Build Your Resilience.	Positive environmental effects over the long run through the promotion of climate-resilient development that can deliver adaptation benefits through nature-based solutions and ensuring efficiency and sustainability in the use of scarce natural resources	Neutral to low poverty and distributional effects.
Prior Action #8. The Borrower has advanced the decarbonization agenda by enacting a law that incentivizes electric mobility for ground transportation.	Significant positive impacts through the decarbonization of the energy and transport sectors, contributing to positive environmental outcomes nationally (with co-benefits for human health and the environment) and contributing to carbon mitigation globally in line with Paris agreement commitments.	Neutral to low poverty and distributional effects (positive long-term effects may arise for populations directly affected by greener activities).
Prior Action #9. The Borrower has issued a decree establishing the objectives, requirements, and a governance structure for the gradual and progressive development of the domestic carbon market.	Significant positive impacts over the long-term through market-based mechanisms aimed at reducing the carbon intensity of Panama's economy.	Neutral to low poverty and distributional effects (positive long-term effects may arise for populations directly affected by greener activities).

ANNEX 5: PANAMA'S COVID-19 CRISIS SOCIAL AND ECONOMIC RESPONSE AND RECOVERY MEASURES

The GoP deployed a coordinated strategy to mitigate the economic and social impacts of the COVID-19 crisis. The first measures were timely announced, after 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 Panama Solidarity Plan (PPS), a temporary economic support program, which includes different type of support for vulnerable households[78]
- Subsidy for workers in the formal sector who stopped receiving a salary after the declaration of the pandemic, legally categorized as suspended workers and for poor foreign workers residing in Panama (provided through *PPS*)
- Coordination of national and local governments in the implementation of social policies
- Improvement in PPS targeting to ensure adequate coverage of vulnerable people with improved efficiency in 2021
- Creation of New Panama Solidarity Plan to extend support beyond 2021 to households still affected by the pandemic, complemented with a labor market inclusion component to enhance labor market outcomes
- Prevention of domestic abuse through implementation of public campaigns and a 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 public and private schools across all education levels, schools recently reopened in March 2022
- 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
- Implementation of vaccination strategy, prioritizing health workers and vulnerable groups
- Implementation of telehealth services to mitigate challenges caused by disruption of face-to-face services

Mitigation of learning losses

- Development of emergency distance-learning programs, accessible using, inter alia, 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
- Approval of legal framework to integrate accessible ICT to the education system to accelerate learning, especially among the most vulnerable, including persons with disabilities

Economic

Internal revenue services

- Import tax waivers for specific medical supplies and basic-needs items
- Deferral of income taxes for companies, conditional on the retention of their labor force

Emergency response financing and precautionary credit line

- Reallocation of budget resources to the health sector
- Contract a $ 2.7 billion IMF Precautionary and Liquidity Line as insurance against extreme shocks

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

[78] Three types of support were provided through PPS: food baskets (for the rural and most isolated areas, including indigenous areas); physical vouchers (for suburban areas with relatively good access to markets); and digital vouchers (for urban areas with good access to markets).