



The World Bank

Panama Pandemic Response and Growth Recovery Development Policy Operation (P174107)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-Oct-2020 | Report No: PIDA30465



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Panama	P174107	Panama Pandemic Response and Growth Recovery Development Policy Operation (P174107)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	08-Dec-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Panama	Ministry of Economy and Finance		

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.

Financing (in US\$, Millions)

SUMMARY

Total Financing	250.00
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DETAILS

Total World Bank Group Financing	250.00
World Bank Lending	250.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

- The proposed operation will support the Government of Panama (GoP) to protect human capital during the COVID-19 crisis and build a more inclusive and sustainable economy during the recovery phase.** The proposed operation is the first of two in a programmatic Development Policy Financing (DPF) series. The DPF series supports reforms organized around three pillars. Pillar A supports emergency measures aimed at protecting human capital during the COVID-19 crisis



while laying the ground for improvement in institutions for human capital accumulation. Pillar B supports key policy and institutional reforms for rebuilding a more transparent and fiscally sustainable economy. Pillar C supports institutional reforms to improve agricultural productivity (with a focus on Indigenous Peoples) and to promote the adaptation and mitigation to climate change.

2. Panama's exceptional growth over the past decades has not been accompanied by similar progress on social and institutional dimensions. Panama is one of the few countries in Latin America and the Caribbean (LAC) to make progress in converging to the income per capita of more developed countries. In 2000, Panama's GDP per capita accounted for 11 percent of the United States', while in 2019, it accounted for 24 percent. While poverty headcount (at US\$ 5.5/day, PPP 2017) stood at approximately 13 percent in 2019, rural poverty surpassed 30 percent and poverty among Indigenous Peoples exceeded 44 percent. Education and health outcomes lag high- and middle-income countries significantly. Panama's Human Capital Index (HCI)¹ of 0.50 is lower than those of middle-income countries such as Colombia (0.60), Peru (0.61), and Ecuador (0.59). The strength of some Panamanian institutions is also below that of countries with similar levels of income.² For instance, compared to its structural peers³, Panama performs at the bottom 25th percentile of all political institutions sub-indices (e.g. fundamental rights and power by social group) and of all public sector institutions (i.e. regulatory enforcement, regulatory governance, regulatory quality, and government effectiveness), with the exception of efficiency of government spending, which ranks in the 25-50th percentile.

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

4. Progress in addressing social inequities and institutional fragilities has been halted by the COVID-19 crisis, which hit Panama particularly hard due to its geographical position, urban density, and high informality. Panama has reported one of the largest case count per capita of COVID-19 infections in LAC. As of October 12, 2020; 2,811 cases per 100,000 habitants have been reported and 2,502 deaths have been registered (58 per 100,000 habitants). The country's geographic position in the middle of the American continent and its connecting role between Asia and the American continent in world logistics make it especially vulnerable to COVID-19 transmission. Dense urban areas and high levels of informality also contributed to the spread of the pandemic. The government's response to the pandemic has been agile, including the introduction of strong containment measures, reallocating spending, and mobilizing resources to fund the health response and programs to support vulnerable segments of the population. As the pandemic receded, the GoP laid out a gradual and phased plan for reopening the economy with restrictions based on the health risk of each sector.

5. The impacts of the COVID-19 crisis on human capital and poverty have intensified long-standing inequities and

¹ The index measures the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where she lives. It is designed to highlight how improvements in current health and education outcomes shape the productivity of the next generation of workers, assuming that children born today experience over the next 18 years the educational opportunities and health risks that children in this age range currently face.

² These results are taken from Panama's Rapid Institutional Analysis constructed by using a four-step analytical process: (i) Defining the subject of the analysis/designing the conceptual framework, building upon the WDR2017 "Governance and the Law" and combining it with recent research on institutional design and institutional change; (ii) Undertaking a benchmarking 'distance to frontier' exercise to map empirically main institutional weaknesses (quantitative assessment); (iii) Adopting a Problem-Driven Approach to develop an 'institutional heatmap' and select the sub-set of institutional challenges that are most relevant given the country's development challenges; and (iv) Building on the heatmap, elaborate on the causal mechanisms through which institutional weaknesses affect development outcomes (qualitative assessment).

³ The structural peer countries are: Costa Rica, Bulgaria, Croatia, Uruguay and Dominican Republic, which are taken from the Systematic Country Diagnostic (SCD) Report No. 97719, January/ 2015.



reversed gains achieved over the past decades, especially for women, Afro-descendants, and the Indigenous population. The COVID-19 pandemic has disrupted the provision of essential health and education services, affecting livelihoods and food security, posing a risk to nutrition, and reducing the ability of households to invest in human capital. The pandemic has left almost one million students out of school, which could translate in a reduction of up to 8.4 percent in the average lifetime earnings of those students unless it is mitigated. Poor and vulnerable groups are bearing a disproportionate cost of the crisis as they are more likely to work in jobs that cannot be done remotely or work in the informal sector, which are not covered by the regular social safety nets in the country. For instance, 45 percent of workers in the non-agricultural sector are informal. Moreover, poverty is expected to increase by at least 3.4 percentage points, bringing the poverty rate from 13 to 16.4 percent of the population.⁴ Although urban areas are more exposed to the COVID-19 crisis, poverty in rural areas is expected to increase by almost twice as much than in urban areas (5.3 vs 2.5 percentage points respectively), since there are more vulnerable people in rural areas (i.e., living above US\$ 5.5/day but under US\$ 13/day). The sectors most affected by COVID-19 include tourism, construction, logistics, and commerce, which jointly employ close to 60 percent of all formal workers and indirectly generate work for about 70 percent of the informal workers. These sectors also indirectly employ 50 percent of women, 70 percent of Indigenous Peoples, and 56 percent of Afro-descendants.

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

Relationship to CPF

7. The operation is aligned with the World Bank Group Approach Paper to the COVID-19 Crisis Response and FY15-21 Country Partnership Framework (CPF) for Panama⁵, as well as it builds on reforms supported by previous operations and is part of a broader support effort by International Financial Institutions (IFI). The operation supports reforms on health, education, and social protection to protect human capital during the relief stage under the *Approach Paper*'s second pillar on "Protect poor and most vulnerable." The operation also supports reforms to restore human capital and promote inclusion and economic empowerment during the restructuring stage. Last, it supports reforms to strengthen institutions for revenue collection, transparency in business transactions and public procurement, and to mobilize private sector finance for development under the fourth pillar on "Strengthen policies, institutions and investments for rebuilding better" during the resilient recovery stage. The DPF series is also a core instrument to achieve the objectives of CPF pillar 2 (Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups) and the cross-cutting themes of *strengthening institutional capacity and governance*. This DPF series builds upon the reforms supported by the previous DPF series (Programmatic Shared Prosperity DPF - P166159).

⁴ Poverty is defined using the US\$5.5 per capita per day poverty line at 2011 Purchasing Power Parity (PPP) prices.

⁵ FY15-21 CPF discussed by the World Bank's Board of Executive Directors on March 2, 2015 (Report No. 93425-PA) and World Bank's Performance and Learning Review (PLR) for the CPF 2015-21 (Report No. 123665-PA).



C. Proposed Development Objective(s)

8. 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.

Key Results

9. **The proposed DPF series expected to help** (i) preserve the standard of living of vulnerable formal and informal workers; (ii) attenuate learning losses and mitigate dropouts; (iii) lower the cost associated with the purchase of medicines and prepare the country to deploy an eventual COVID-19 vaccine; (iv) enhance economic opportunities for Indigenous Peoples; (v) reduce the urban-rural income gap; (vi) increase the transparency of business transactions; (vii) enhance the transparency and efficiency of public procurement; (viii) promote the preparation of efficient and socially and fiscally responsible Public Private Partnership projects; (ix) attract investment in renewable source of energy; and (x) lay a key foundation for carbon markets.

D. Project Description

10. The proposed DPF is organized around the following pillars:

- *Pillar A – Protecting human capital during the COVID-19 crisis and strengthening institutions to foster human capital accumulation during the recovery.* This pillar supports selected short-term measures adopted by the government to protect the human capital during the COVID-19 pandemic, as well as medium-term institutional reforms aimed at strengthening the quality and equity of service delivery in health and education.
- *Pillar B – Strengthening institutions to support a more transparent and fiscally sustainable economic recovery.* This pillar supports key policy and institutional reforms for rebuilding a more transparent and fiscally sustainable economy. This includes reforms for fiscal consolidation and increased transparency and efficiency of public procurement, and the regulation of Public Private Partnerships.
- *Pillar C – Strengthening institutions to support a more inclusive and environmentally sustainable economic recovery.* This pillar supports key policy and institutional reforms for rebuilding a more inclusive and environmentally sustainable economy. This includes reforms related to electricity subsidies, promotion of clean fuels, the regulatory framework for the national inventory of greenhouse gas, and low-carbon economic and social development.

E. Implementation

Institutional and Implementation Arrangements

11. **The Ministry of Economy and Finance (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 DPF include the following: (i) Pillar A: Ministry of Health (MINSA), Institute of Research on Health (*Instituto Commemorativo GORGAS – COVID19 Monitoring*), Ministry of Education (MEDUCA), Ministry of Social Development (MIDES), Ministry of the Presidency, and National Authority for Governmental Innovations (AIG); (ii) Pillar B: National Secretariat for Public-Private Partnerships (SNAPP), and MEF; and (iii) Pillar C: Ministry of Agricultural Development (MIDA), Vice-Ministry of Indigenous Affairs, Secretariat of Energy, and Ministry of Environment (MIAMBIENTE). The World Bank will be monitoring the implementation of the DPF program through regular supervision missions.



12. **The administrative data needed to monitor the operation is adequate.** The operation will be monitored by administrative data maintained by government agencies involved in the operation. In the cases where multiple agencies might be involved in the implementation of the policy action, MEF will coordinate with other government agencies and non-governmental actors, including the Ministry of Governance (MINGOV), as well as the National Congress and representatives of Indigenous Peoples.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

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

Environmental, Forests, and Other Natural Resource Aspects

14. **The measures supported under the proposed DPF are not expected to have significant effects on the environment, forests or other natural resources.** Prior Actions under Pillar A aim to protect human capital during the COVID-19 crisis and strengthen institutions to foster human capital accumulation during the recovery. Under Prior Action 1 (approval of the National Pharmaceutical Policy Law), there is potential for the generation of increased pharmaceutical waste, although any potential negative risks associated with this can be easily mitigated through the strong medical waste framework in force in Panama. Medical waste management is directed by Executive Decree No. 111 of June 23, 1999, which establishes the regulations for the management and handling of solid waste from health facilities as well as pharmaceutical waste, and Panama has adequate institutional capacity and enforcement powers to apply these waste mitigation measures nationally. As such, any impacts arising from governmental support to the population under Pillar A are likely to be environmentally neutral or have minimal negative effects. Pillar B focuses support on strengthening institutions to support a more transparent and fiscally sustainable economic recovery. Prior Action 5 focuses on improved transparency and accountability in public procurement, incorporating good international practice that includes environmental and social due diligence guidelines into feasibility studies and procurement contracts, and is likely to result in positive environmental outcomes, primarily by incentivizing environmental and energy efficiency in procurement, processes.

G. Risks and Mitigation

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

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APPROVAL

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Approved By

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