



**The World Bank**

Panama Pandemic Response and Growth Recovery Development Policy Operation 2 (P175930)

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# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 11-May-2022 | Report No: PIDA34142



## BASIC INFORMATION

### A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Panama	P175930	Panama Pandemic Response and Growth Recovery Development Policy Operation 2 (P175930)	P174107
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date 24-Jun-2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) REPUBLIC OF PANAMA	Implementing Agency 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

1. Panama's exceptional growth over the past decades has not been accompanied by sustained progress on



**social and institutional dimensions.** Panama is the country in Latin America and the Caribbean (LAC) to progress in converging to the income per capita of more developed countries. Sustained solid growth pushed Panama's income per capita above the Graduation Discussion Income (GDI) and close to the high-income threshold under the World Bank classification. By 2019, the poverty headcount (at \$ 5.5/day, purchasing power parity 2011) had fallen to approximately 12.1 percent in 2019. Yet, rural poverty and poverty in the Indigenous Comarcas remains high at 28 percent and 70 percent, respectively. Education and health outcomes also lag with respect to other high- and middle-income countries. Panama's Human Capital Index (HCI)<sup>1</sup> of 0.50 is lower than those of middle-income countries such as Colombia (0.60), Peru (0.61), and Ecuador (0.59). The strength of most Panamanian institutions is also below that of countries with similar levels of income.<sup>2</sup> For instance, compared to its structural peers,<sup>3</sup> Panama performs at the bottom 25<sup>th</sup> 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).

**2. Progress in addressing social and institutional challenges has been halted by the COVID-19 crisis, which hit Panama particularly hard due to its geographical position, urban density, and economic structure.** Panama had the highest infection rate in the LAC region during most of 2020 and, as of April 2022, holds the highest number of COVID-19 cumulative cases per 100,000 inhabitants in Central America and still one of the highest in the region.<sup>4</sup> The country's geographic position and its connecting role between Asia and the American continent 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 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 and gradual liberalization as cases declined, the reallocation of spending, and the mobilization of resources to fund the health response and programs for vulnerable segments of the population. The country has made progress on its vaccination roll-out, with 70.7 percent of the population vaccinated with at least two doses as of April 15, 2022.

**3. The COVID-19 crisis and the effects of hurricane ETA have intensified long-standing inequities, and reversed development gains achieved over the past decades, especially for women, Afro-descendants, and the Indigenous population.** The COVID-19 pandemic disrupted the provision of essential health and education services, affecting livelihoods and food security. GDP declined 17.9 percent in 2020, among the steepest contractions in LAC. In turn, this has posed a risk to nutrition and reduced the ability of households to invest in human capital. Poor and vulnerable groups are bearing a disproportionate cost of the crisis as they are more likely to have jobs that cannot be done remotely or to work in the informal sector, which exempts them from the regular social security or safety nets in the country. Moreover, poverty increased by almost 3 percentage points from 2019 to 2020, bringing the poverty rate to 14.8 percent of the population.<sup>5</sup> 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 informal workers. These sectors also indirectly employ 50 percent of women, 70 percent of Indigenous Peoples, and 56 percent of Afro-descendants. The crisis has also eroded macroeconomic buffers. Finally, the pandemic might have long-lasting effects since food insecurity has doubled, and the rate of children participating in primary and secondary education has

<sup>1</sup> 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.

<sup>2</sup> These results are taken from Panama's Rapid Institutional Analysis (2020).

<sup>3</sup> Costa Rica, Bulgaria, Croatia, Uruguay, and Dominican Republic (taken from the 2015 Systematic Country Diagnostic (SCD) Report No. 93425-PA).

<sup>4</sup> <https://covid19.who.int/region/amro/country/pa>

<sup>5</sup> Poverty estimate is based on the \$5.5 per capita per day poverty line at 2011 Purchasing Power Parity (PPP) prices.



significantly dropped, according to WB COVID-19 High Frequency Monitoring Survey.

#### Relationship to CPF

**4. The proposed operation is aligned with the FY15-21 Country Partnership Framework (CPF) for Panama discussed by the World Bank's Board of Executive Directors on March 2, 2015 and its Performance and Learning Review (PLR).<sup>6</sup>** The operation supports the following 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) Objective 6 under Pillar 3: Bolstering Resilience and Sustainability. The operation 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 Indigenous Peoples, Afro-descendants, and women.

#### C. Proposed Development Objective(s)

**5. 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.** The DPF series supports reforms organized around three pillars. Pillar A includes measures aimed at protecting human capital during the COVID-19 crisis while improving institutions for human capital accumulation during the recovery. Pillar B includes policy and institutional reforms for rebuilding a more transparent and fiscally sustainable economy. Pillar C includes institutional reforms to improve agricultural productivity, foster inclusion of Indigenous Peoples, and promote the adaptation and mitigation to climate change. The proposed DPF series thus supports Panama's efforts to: (i) address key institutional weaknesses; (ii) reduce long-term inequities; (iii) combat illicit flows; and (iv) contribute to adaptation and mitigation to climate change.

#### Key Results

**6. The proposed DPF series is expected to help** (i) lower the cost associated with the purchase of medicines and improve access to health service through telemedicine; (ii) attenuate learning losses and dropouts through digital transformation in education; (iii) preserve the standard of living of vulnerable formal and informal workers affected by the COVID-19 crisis; (iv) enhance economic opportunities for women and 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; and (ix) reduce carbon emissions.

#### D. Project Description

**7. The proposed DPF is organized around the following pillars:**

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

<sup>6</sup> CPF Report No. 93425-PA and PLR Report No. 123665-PA. OPCS extended the period for CPFs ending in FY21 until FY22.



*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, including medium-term institutional reforms aimed at strengthening the quality and equity of service delivery in health and education, and social programs to support the vulnerable to the remaining impacts of the pandemic.

- *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 of business operations, 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 improving agricultural productivity of small farmers, empowering indigenous peoples, improve climate change adaptation and mitigation efforts, advancing the decarbonization agenda through incentivizing electric mobility for ground transportation and supporting the operation of a carbon market and a program to create demand of carbon offsets from the private sector.

**8. This operation builds on the program supported by the Panama Pandemic Response and Growth Recovery Development Policy Operation (P174107, DPF1), reflecting strong government commitment in the areas covered by this operation.** Most of indicative triggers identified at the time of DPF1 approval have been met and upgraded to prior actions for this operation. 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 climate adaptation efforts. Only trigger 9 has been substituted due to delays in implementation. This trigger is now expected to be approved by 2023.

### **Implementation**

#### **Institutional and Implementation Arrangements**

**9. 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 prior actions and triggers 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 the Presidency, Ministry of Social Development (MIDES), and National Authority for Governmental Innovations (AIG); (ii) Pillar B: National Secretariat for Public-Private Partnerships (SNAPP), Banking Superintendence, and MEF – through the *Dirección General de Ingresos*, *Dirección Nacional de Contabilidad* and *Direccion General de Contrataciones Publicas*; and (iii) Pillar C: Ministry of Agricultural Development (MIDA), Vice-Ministry of Indigenous Affairs, Secretariat of Energy, and Ministry of Environment (MiAmbiente). The World Bank will be monitoring the implementation of the DPF program through regular supervision missions, including virtual missions. The World Bank will maintain close dialogue with counterparts throughout preparation and collaborate with MEF for the monitoring of indicators.

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

## Poverty and Social Impacts

**10. The proposed operation 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 operation 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 Plan Panama Solidario (under DPF1) and New Plan Panama Solidario (under this operation) 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. 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. 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. Prior Actions 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.

## Environmental, Forests, and Other Natural Resource Aspects

**11. The measures supported under the proposed operation are not expected to have significant effects on the environment, forests, or other natural resources.** The 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. Positive impacts may be substantial depending on the final sectoral selection and prior action focal areas as dialogue with the government advances. With regard to potential negative risks and impacts, the environmental monitoring and compliance regulatory system in place in Panama ensures robust oversight.

**G. Risks and Mitigation**

**12. The overall risk of the operation is substantial.** The risk categories assessed as substantial are institutional capacity for implementation and sustainability and stakeholders' risks. Mitigation measures are in place. These include strong joint dialogue with the IMF on macroeconomic policy and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) issues and cooperation with other development partners, provision of technical assistance to the government on the main policy areas of this operation, and public outreach, as well as gradual implementation of key measures (particularly in the transparency agenda) and continued engagement and consultations.

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**APPROVAL**

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**Approved By**

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