

PROGRAM INFORMATION DOCUMENT (PID)
Appraisal STAGE

January 19, 2015
Report No.: AB7708

Operation Name	First Programmatic Shared Prosperity Development Policy Loan
Region	LATIN AMERICA AND CARIBBEAN
Country	Panama
Sector	General public administration sector (80%); Public administration - Other social services (20%)
Operation ID	P151804
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF PANAMA
Implementing Agency	Ministry of Finance Via España y Calle 52, Edificio Ogawa 4to Piso Panama Tel: (507) 507-7202 Fax: (507) 507-7200 amendez@mef.gob.pa; crpmp@bloomberg.net
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Corporate Review Decision	ROC

I. Key Development Issues and Rationale for Bank Involvement

Exceptional growth contributed to significant progress on poverty reduction and shared prosperity in recent years.¹ Panama's real growth averaged 7.2 percent between 2001 and 2013, more than double Latin America and the Caribbean's average, resulting in important achievements in poverty reduction. Between 2007 and 2012, poverty fell from 39.9 percent to 26.2 percent, and extreme poverty declined from 15.6 percent to 11.3 percent. During the same period, income growth of households in the bottom 40 percent of the population increased 8.2 percent compared to the average per capita income, which only rose by 6.6 percent, a clear indication that growth has been pro-poor. Panama is one of the best performers in the region in terms of broadening the benefits of growth to the bottom 40 percent, with only Bolivia seeing greater income growth among the poor.

Despite this remarkable progress, Panama still has an important work to do to build an inclusive society. The most immediate challenges Panama faces in this context include: (i) a shared prosperity that has not reached everyone, in particular, the indigenous with still high level of extreme poverty and the youth who face difficulty entering the labor market due to lack of

¹ Unless otherwise stated, the analysis uses national definitions of poverty and shared prosperity (both poverty lines and the income aggregate). The value of the national poverty line was US\$7.9/day urban and US\$5.8/day.

appropriate skills and outdated curricula in the formal education system; and (ii) the coverage and quality of basic services, such as water, sanitation and electricity caused by inefficient institutional set-up that have fiscal consequences as well as sustainability of these sectors.

The new Government has moved ahead with its reform plan to address these key development challenges. In terms of the inclusion agenda, it has made indigenous development a priority by creating a Ministry of Indigenous Affairs and developing culturally appropriate social protection programs. Moreover, the Government has taken on a comprehensive set of policies to tackle high drop-out rates from secondary education and low educational quality issues. Among the actions undertaken, the Government has introduced a vocational training program, *ProJoven*, is reforming the education system to foster bilingual education, and has updated the curricula of high school baccalaureates. In terms of service delivery, the Government has launched an ambitious basic sanitation program with the goal to provide potable water to 100 percent of Panamanians and leaving zero latrines. Government is addressing the institutional weaknesses in the energy sector and tackling the electricity subsidy scheme by adjusting tariffs to lower the fiscal cost. With respect to fiscal management, the Government is consolidating all accounts of public entities into a single treasury account, and is modernizing the fiscal management of disasters and of debt.

II. Proposed Objective(s)

The Program Development Objective of the proposed DPL series is to support the Government's efforts to (i) expand inclusion and opportunities, (ii) improve service delivery, and (iii) modernize fiscal management. The DPL series is an important component of the Bank lending program to support Government designated programs under three objectives of the CPF: ensuring the benefits of growth to reach poor and marginalized groups, improving access to reliable services for the bottom 40 percent, and increasing the efficiency and efficacy of public expenditure.

III. Preliminary Description

The proposed DPL series supports the Government of Panama's efforts to further reduce extreme poverty and increase prosperity by focusing on: 1) inclusion and opportunities, 2) service delivery, and 3) modern fiscal management. The Government's reforms in the areas of education, energy, public institutions, water management and indigenous populations are fundamental as they address areas that have been identified as bottlenecks to sustainable economic growth and inclusion in Panama.

The three components are the following: In the inclusion and opportunity pillar, the DPL series supports the Government in a) tackling extreme poverty by giving priority to culturally appropriate development in indigenous areas; b) creating opportunities for youth through updating formal education and increasing incentives for secondary school graduation; and c) expanding the coverage and improving the targeting and quality of social protection for the poor. This component is expected to create social and economic opportunities for Indigenous People, reduce drop-out rates from secondary school, increase youth employment in the formal labor market and improve targeting and management of social programs. In the service delivery pillar,

the DPL series supports service delivery reforms in the energy and water and sanitation sectors to expand coverage and ensure sustainability of these sectors. This component is expected to improve access to basic sanitation and provide more sustainable and reliable energy. Finally, the third pillar of the DPL supports the modernization of fiscal management through a) updating the financial planning of Government resources and b) increasing Government's ability to manage fiscal risks from disasters. This component is expected to increase transparency of Government transactions and increase ability of the Government to manage contingent liabilities.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Government actions supported in this DPL are expected to have positive poverty and social impacts. The analysis carried out on the potential impacts of the reforms supported under this operation suggests a positive or neutral direct impact on poverty and social development indicators.

Measures related to social protection programs are expected to generate positive impacts for the poor and extreme poor. Measures to enhance inclusion and economic opportunities for the Indigenous Peoples are expected to have positive impacts given the extreme concentration of poverty in indigenous areas. Measures to enhance opportunities for youth are expected to have both direct and indirect impacts on poverty among this group. The direct effect comes from the increase of *Beca Universal* transfers while the indirect effects come from decreased drop-out rates, especially in secondary school, and through higher employment rates and wages for the beneficiaries of the *ProJoven* program.

The extension of the non-contributory pension scheme is expected to significantly reduce poverty among the elderly, and poverty in the general population slightly. As the table below shows, the extension of the pension program from *100 a los 70* to *120 a los 65* would reduce poverty rates among the population of age 65 and above from 13.87 percent to 7.38 percent, and poverty rates among the general population from 25.91 percent to 24.64 percent. Rates of extreme poverty would be reduced in a similar way.

The supported action on improving access to basic water and sanitation services is expected to reduce poverty and improve living conditions of the beneficiaries. The basic sanitation plan "*100/0*" will provide basic WSS services to currently under-served poor households, which will lead to improved health outcomes and thus higher chance of accessing education and job opportunities. The monitoring of water quality through the SIASAR system, the modernization of IDAAN, and reforms in the energy sector are expected to enhance the cost-efficiency of service provision, ultimately benefiting the consumers.

Measures to modernize the Government are not expected to directly impact poverty or the distribution of incomes. However, indirect effects could occur. For example, a more strategic response to fiscal risks from natural disasters, and a more efficient public financial management may free up resources for social development spending. In addition, increased government transparency could enhance the business environment and therefore generate more growth and employment.

Environment Aspects

The measures supported under the proposed DPL are not likely to have significant effects on the environment, forests or other natural resources. The first and third pillars, expanding social inclusion and modernizing fiscal management, have a primarily administrative nature, therefore, policy actions under these pillars are unlikely to either exacerbate environmental problems or contribute to their remediation. The second pillar on service provision, the subcomponent on securing sustainable and reliable energy provision could have a positive environmental impact by reducing the use of polluting energy generation devices. Furthermore, giving proper incentives to lower consumption will result in less use of emergency stations that use the least efficient fuel generation devices. The subcomponent on improving access and efficiency of water and sanitation is likely to improve water sources and waste water management in small communities and in peri-urban areas.

V. Tentative financing

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	300
Borrower/Recipient	
IBRD	
Others (specify)	
Total	300

VI. Contact point

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