



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 08-Sep-2020 | Report No: PIDC29457



**BASIC INFORMATION**

**A. Basic Project Data**

Country Panama	Project ID P174107	Project Name Panama Pandemic Response and Growth Recovery Development Policy Operation (P174107)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Dec 07, 2020	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 support the Government of Panama in protecting the poor and vulnerable from the impacts of the COVID-19 pandemic and strengthening institutions for rebuilding a more inclusive and sustainable economy

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	250.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	250.00
World Bank Lending	250.00

**Decision**

The review did authorize the preparation to continue



## B. Introduction and Context

### Country Context

1. **The proposed operation supports the Government of Panama (GoP) in mitigating the social and economic impacts of the COVID-19 pandemic and supports policies and institutional reforms for an inclusive and sustainable recovery.** The proposed operation is the first in a programmatic Development Policy Financing (DPF) series of two in support of the government program to effectively respond to the pandemic. While Panama is classified as a high-income country, its institutional development and social outcomes are aligned with those of countries with much lower levels of income. This proposed DPF series tackles critical challenges, such as large regional, ethnic, urban/rural inequalities that were already prevalent but have widened as a result of the COVID-19 pandemic, as well as institutional shortcomings – including related to global public goods such as anti-money laundering – that limit government capacity to address these challenges.

2. **With the second largest COVID-19 case count per capita in the Americas after Chile, Panama faces important economic and social impacts that aggravate pre-crisis development challenges.** Containment measures – together with the effects of the global recession – resulted in a sharp contraction of the economy. Panama’s GDP growth is expected to decline from 3 percent in 2019 to -8.3 this year. Panama’s two leading sectors in growth – construction and mining – were shut down as a result of containment measures. Panama’s main services – transport and communications – were also affected by the closing of borders and airports and by the decline in global trade. The impacts of COVID-19 will also contribute to a fiscal deterioration that brings institutional constraints to the fore. In 2019, the overall fiscal deficit reached 3.1 percent of GDP and is expected to increase to 6 percent of GDP this year, bringing the public debt to 56 percent of the GDP in 2020. Dwindling government revenues, due to the compound effect of the sharp economic slowdown and weakness in tax collections, are expected to lead to a significant reduction in public investments to enable the rebalancing of the fiscal accounts. Promoting responsible private investment is therefore paramount to meet Panama’s important infrastructure needs. Strengthening the regulatory framework for Public Private Partnerships (PPPs) and improving transparency of investments by advancing critical anti-money laundering measures are key conditions for this to happen. Social and poverty impacts are expected to be severe overall, and to exacerbate the high levels of inequality and exclusion suffered particularly by indigenous peoples, women, and Afro-descendants. Poverty is expected to increase by at least 3.4 percentage points, bringing 148,000 citizens into poverty,<sup>1</sup>. Rural poverty is expected to increase to 5.3 percent, from 2.5 percent previously. Importantly, asset depletion among certain households could have long-lasting effects on growth, especially in light of increased pressures on social services essential for human capital accumulation. The pandemic has left almost one million students out of school in Panama, resulting in large learning losses and an important reduction in the average lifetime earnings of students affected.

3. **Panama’s macroeconomic policy framework is deemed adequate for the proposed operation.** Panama entered the crisis in a better shape than its regional peers and has managed the response to the pandemic with a prudent albeit strong countercyclical policy. Fiscal and debt sustainability is underpinned by the Social and Fiscal Responsibility Law and Panama’s strong track record on fiscal management. The caps and limits set on net public debt and fiscal deficit in the Social and Fiscal Responsibility Law were appropriately waived for 2020 due to COVID-19 with regular limits to resume in 2021. Financing needs of the central government are estimated at 10 percent of GDP, with international financial institutions (including the World Bank) expected to cover 30 percent of this total and private sector issuances funding the rest at reasonable terms (consistent with Panama’s investment level credit rating). Public debt is deemed sustainable albeit expected to reach 56 percent of GDP in 2020 before gradually decreasing to 50 percent of GDP by 2025. The deep financial sector entered the crisis with strong capital and liquidity buffers, and a low Non-Performing Loan ratio of 2

<sup>1</sup> Poverty is defined using the US\$5.5 per capita per day poverty line at 2011 Purchasing Power Parity (PPP) prices.



percent. Nonetheless, the absence of a lender of last resort (Panama is a fully dollarized economy with no central bank) makes banks vulnerable to liquidity squeezes at times of economic distress. Banks have, thus, faced liquidity shortages in their funding due to COVID-19, which the government is addressing through a liquidity fund for the financial sector with IMF and MIGA support. The outlook is vulnerable to a few risks including stronger-than-anticipated health impacts of the COVID-19 pandemic, lower service exports, and reduced FDI inflows and fiscal revenues.

#### Relationship to CPF

4. **The proposed operation is fully aligned with the World Bank Group [COVID-19 Crisis Response Approach Paper](#) and supports the objectives of the FY15-21 Country Partnership Framework (CPF).** It supports reforms on social protection and education under the Approach paper's second pillar "Protect poor and most vulnerable" during the relief stage. The operation would also supports reforms for restoring human capital and promoting inclusion and economic empowerment during the restructuring stage. Finally, the operation would support reforms to strengthen institutions for revenue collection, transparency in business transactions and public procurement, and to mobilize private sector finance for development under the Approach paper's fourth pillar "Strengthen policies, institutions and investments for rebuilding better" during the resilient recovery stage. The DPF series is a core instrument to achieve the objective 4 (Complement Social Assistance with Productive Inclusion) under CPF pillar 2 (Ensuring Inclusion and Opportunities for Marginalized and Indigenous Groups) and the cross-cutting themes of strengthening institutional capacity and governance.

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

5. **The objective of this operation is to support the Government of Panama in protecting the poor and vulnerable from the impacts of the COVID-19 pandemic and strengthening institutions for rebuilding a more inclusive and sustainable economy.** The reforms supported by this operation will help protect the incomes of the most vulnerable groups of society from lasting repercussions from the pandemic and help steer the economy to rebuild better through critical policy and institutional reforms. This will be achieved by supporting a combination of emergency measures and structural reforms. Therefore, this operation supports the country emergency and development plans while directly contributing to the objectives the Bank has set for new IBRD lending in countries above the Graduation Discussion Income.

#### Key Results

6. **The proposed DPL series expected to help** (i) preserve jobs and the standard of living of vulnerable formal and informal workers; (ii) attenuate learning losses and mitigate dropouts; (iii) lower the cost of associated with the purchase of medicines; (iv) enhance economic opportunities for indigenous people<sup>2</sup>; (v) reduce the urban-rural income gap; (vi) increase the transparency of business transactions; (vii) mobilize tax revenues; (viii) enhance the transparency and efficiency of public procurement; (ix) promote the preparation of efficient and fiscally responsible Public Private Partnership projects; (x) attract investment in renewable source of energy; and (xi) lay the foundations for carbon markets.

#### D. Concept Description

7. **The proposed DPF is part of a programmatic series of two loans organized around two pillars. The two pillars**

<sup>2</sup> Including through better access to productive credit.



included in the operation are the following:

- *Pillar A - Protecting the poor and vulnerable from the impacts of the pandemic and strengthening institutions to enable an inclusive economic recovery.* This pillar supports the main short-term measures adopted by the Government of Panama to mitigate the social impacts of the COVID-19 pandemic, as well as medium-term improvements and institutional reforms related to: (i) improving social assistance programs and reforming the labor code; (ii) supporting a well-functioning remote learning system and more sustainable school feeding programs; (iii) promoting family farming to reduce rural poverty and the rural-urban income gap; and (iv) expediting the issuance of collective land titles to indigenous people in national protected areas and strengthening the institutional framework for indigenous peoples' development.
- *Pillar B - Strengthening institutions to rebuild a more sustainable economy.* This pillar supports key policy and institutional reforms for rebuilding a more sustainable economy from an environmental and fiscal perspective. This includes reforms aimed at (i) increasing the transparency of business transactions by introducing a registry for ultimately beneficiary ownership; (ii) creating a large tax payer unit in the revenue administration; (iii) enhancing the transparency and efficiency of public procurement, and improving fiscal reporting; (iv) aligning the legal framework for PPPs with best international practices; (v) providing a level playing field for attracting renewable source of energy and thus contributing to adaptation and energy security; and (vi) laying the foundations for carbon markets by defining, standardizing and creating a registry for carbon emissions

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

### Poverty and Social Impacts

**8. 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 interventions supported under this DPF would reduce monthly headcount poverty by 6.7 and 8.0 percent points (pp) or between 287,000 and 339,000 individuals, thus reversing a large proportion of the unprecedented increase in poverty attributable to COVID-19. Larger poverty reductions are estimated in rural areas. The support to a temporary enlargement of cash transfers and the narrowing of rural income gaps, are expected to have the largest effects on poverty and inequality reduction while support to distant learning, access to healthcare, and strengthening indigenous peoples' development will also contribute to reducing current and future inequalities. Policies in Pillar A have the potential to mitigate the poverty effect brought by the pandemic. The implementation of prior actions in Pillar B will only bring positive welfare effects to the extent that they raise fiscal revenues ultimately used for poverty reduction activities and are not expected to have negative effects neither on poverty nor on income distribution. In other words, reducing poverty and inequality from pillar B requires that increased public financing can be channeled to public spending and investments that mitigate the socioeconomic impacts of COVID-19; improve health access to the poor; and narrow gaps in education and/or income among school age children and poor farmers, respectively.

### Environmental, Forests, and Other Natural Resource Aspects

**9. The measures supported under the proposed DPF are not expected to have significant effects on the environment, forests or other natural resources.** Pillar A focuses primarily on policy support to strengthen institutions to respond to the COVID-19 crisis and are unlikely to have any significant effects on environment, forests or other natural resources. Pillar B focuses on policy changes in productive sectors to make the COVID-19 recovery more inclusive, and although they have



a potential impact on natural resources and forests, it is unlikely they will have significant negative effects. Pillar B focuses on laying the foundations for a sustainable economic recovery, and the policy actions in this area are assessed as likely to result in positive environmental effects in the long run.

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**APPROVAL**

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**Approved By**

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