



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 14-Feb-2018 | Report No: 123796



**BASIC INFORMATION**

**A. Basic Project Data**

Country Panama	Project ID P166159	Project Name Third Programmatic Shared Prosperity Development Policy Financing	Parent Project ID (if any) First Programmatic Shared Prosperity Development Policy Financing (P151804)
Region Latin America and the Caribbean	Estimated Board Date April 26, 2018	Practice Area (Lead)(s) GMTLC	Financing Instrument Development Policy Financing
Borrower(s) Republic of Panama	Implementing Agency Ministry of Economics and Finance		

**Proposed Development Objective(s)**

The objectives of the DPF series are to:

- Strengthen the frameworks for international tax transparency, financial integrity, and fiscal management
- Strengthen institutional arrangements to support social assistance and education
- Enhance the regulatory and sustainability framework in the energy and water sectors

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

**SUMMARY**

<b>Total Financing</b>	US\$ 100 million
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**DETAILS**

Source: IBRD	US\$ 100 million
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**Decision**

The team is authorized to continue preparation of the operation.



## **B. Introduction and Context**

### Country Context

Macroeconomic and structural policies remain sound and have contributed to growth and poverty reduction. In 2016, GDP expanded by 5 percent, compared to a contraction of 0.7 percent in the Latin American and the Caribbean (LAC) region as a whole. Since 2010, Panama grew by 7.1 percent on average, outpacing the LAC average (2.3 percent) and that of middle income economies (5.1 percent). High economic growth helped to reduce the poverty rate (US\$5.50 per day poverty line) from 24.9 percent in 2008 to 16.2 percent in 2015. Moreover, growth has been widely shared, with the income of the bottom 40 percent of the population growing faster than that of the national average. Despite the progress in poverty reduction, challenges in social inclusion persist, and reforms in the social assistance and education are critical in this regard. Notably, extreme poverty continues to be concentrated in certain areas and vulnerable groups in the country. This requires further improvements in the targeting of the social programs financed through the budget to enable the resources to reach the poorest households. Moreover, there is a need to improve skills among the population in general and among youth in particular, in order to raise future productivity. Education programs that improve students' skill set, including in languages, can help boost their opportunities to obtain better jobs. The DPF supports critical measures in these areas.

Panama has made considerable progress addressing issues related to tax transparency but more work remains to be done. The DPF series continues its support to the international tax transparency and financial integrity reform agenda, which has seen significant progress but requires further work and carries implementation risks. The program has been aligned with the Government's priority to support policy measures aimed at bringing Panama's legal frameworks on AML/CFT and international tax transparency in line with global standards, and ensuring their effective implementation. Panama has made significant progress in strengthening legislation on AML and Combating the Financing of Terrorism (AML/CFT) since the leak of documents from a private legal firm based in Panama regarding operations through off-shore shell structures back in April 2016. Moreover, the country committed, and established the legal framework, to implement the OECD's Common Reporting Standard (CRS), ratified the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, and signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information. It also joined the Inclusive Framework of the Base Erosion and Profit Shifting (BEPS) Project of the OECD, ratified the Intergovernmental Agreement that enforces compliance of the Foreign Account Tax Compliance Act (FATCA), established a legal framework to comply with automatic exchange of information under FATCA, and started to exchange information with the United States, among other efforts. Several of these reforms have been supported by this operation (and the preceding DPF 2). The reform agenda in the areas of tax transparency and financial integrity will continue over the medium term.



## Relationship to CPF

The proposed DPF is fully consistent with the Country Partnership Framework for 2015-2021. The proposed DPF plays an instrumental role in influencing outcomes in the three pillars of the Country Partnership Framework: (i) supporting continued high growth; (ii) ensuring inclusion and opportunities for marginalized and indigenous groups; and (iii) bolstering resilience and sustainability. Building on the progress made by the previous DPF series in enhancing social inclusion and fiscal management, the current DPF series aims to consolidate reforms particularly in the areas of fiscal management, social protection and environmental sustainability. The WB's active portfolio comprises operations in the areas of social protection, water and sanitation, disaster risk management, and public financial management, with expansion envisioned to support for indigenous peoples, and improved access to healthcare. The objectives of relevant operations are linked to the objectives of the proposed DPF 3. In addition, the prior actions complement ongoing activities supported by the International Finance Corporation (IFC) in the energy and education sectors.

### C. Proposed Development Objective(s)

The proposed Development Policy Financing (DPF) is the third operation in a programmatic series, aimed at accompanying Panama's efforts to advance its own shared prosperity agenda which also has global positive externalities. The operation supports reforms in three main areas or pillars: (i) strengthening the frameworks for International tax transparency, financial integrity, and fiscal management; (ii) strengthening institutional arrangements to support inclusion in social assistance and education; and (iii) enhancing the regulatory and sustainability framework in the energy and water sectors. This operation supports reforms that have global positive implications beyond Panama. Pillar 1 would support, among other, the advancement of key tax transparency and Anti-Money Laundering (AML) reforms that, with collective action in the global community, will benefit revenue mobilization across countries. Pillar 3 supports initial energy efficiency measures under Panama's action plan to meet its global commitments on climate change.

#### Key Results

**AML/CFT:** The supported measures are expected to result in Panama starting to exchange financial information for tax purposes on automatic basis in line with the country's international commitments. These exchanges will allow Panama to enhance its role in the international efforts to tackle tax evasion.

**PFM:** The consolidation of financial management functions under ISTMO, with linkages to the revenue collection and debt management systems and the integration of cash management through the TSA, are expected to enhance the transparency and accuracy of public resource management. Improved cash management through the TSA would enable more efficient use of government resources during budget execution.

**CCT:** These actions are expected to improve the targeting and coverage of CCT programs in Panama within the shrinking fiscal envelope. Regular updates to the registry of beneficiaries, and improvements in the targeting formulas are expected to increase the number of extreme poor and vulnerable people benefitting from social assistance by reducing inclusion errors, and improving the coverage and targeting of social assistance schemes.

**Education:** The actions supported by the operation are aimed at supporting medium- and long-term improvements in Panama's education and training system, facilitate the school-labor market transitions for youth while supporting firm productivity (by reducing mismatches).

**Energy efficiency:** The regulations supported by DPF 3 seek to promote energy efficiency and more responsible use of energy by consumers to prevent pollution and excessive greenhouse gas emissions.

**Water management:** The measures supported by the DPF program will strengthen the regulatory and sustainability framework in the water and sanitation sector and improve service delivery.



## D. Concept Description

### ***Pillar 1: Strengthening the Frameworks for International Tax Transparency, Financial Integrity, and Fiscal Management***

Strengthening the framework for international tax transparency and ensuring its effective implementation is a key priority for Panama. The fallout from the leak of documents from a private legal firm based in Panama regarding operations through off-shore shell structures in April 2016 emphasized the importance of strengthening international tax transparency and facilitating exchange of information between Panama and the rest of the world. Under the DPF 2, the Government committed to adhere to the Common Reporting Standards for Automatic Exchange of Financial Account Information in Tax Matters developed by the Global Forum on Transparency and Exchange of Information for Tax Purposes by 2018. This decision committed Panama to an institutional and policy reform process, which included legislative, technical, and operational actions that needed for the adherence to the CRS by 2018

### ***Pillar 2: Strengthening Institutional Arrangements to Support Inclusion in Social Assistance and Education***

CCTs have been a key budget policy vehicle to help reduce extreme poverty in Panama. The Ministry of Social Development (MIDES) is responsible for the design and the implementation of three CCT programs: (i) the flagship poverty program *Red de Oportunidades* (Opportunities Network), aimed at providing income support to the extreme poor; (ii) *120 a los 65* program, which targets poor and vulnerable elderly; and (iii) the *Ángel Guardián* program for extreme poor individuals with disabilities. Launched in 2006, *Red de Oportunidades* has been serving over 70,000 households. Beneficiary families receive US\$50 per month in exchange for their children's school attendance and regular primary health care visits. The *120 a los 65* program (originally *100 a los 70*) has been operational since 2009 and provides a benefit of US\$120 per month to individuals over 65 years of age who do not receive a contributory pension and are considered vulnerable. This payment is contingent upon health checkups and participation in counseling and medical guidance talks, courses, and seminars. Finally, the *Ángel Guardián* program supports disabled individuals living in extreme poverty. Overall, these CCT programs represent around 0.7 percent of GDP annually, and have contributed to reducing extreme poverty and improving social indicators, such as rates of school enrollment, medical check-ups, and pregnant woman screenings.

### ***Pillar 3: Enhancing the Regulatory and Sustainability Framework in the Energy and Water Sectors***

Energy efficiency and the moderation of energy consumption has been an important challenge for the country and core to its action plan to meet its global commitments on climate change issues. The energy sector in Panama is struggling to keep pace with the growing demand that has arisen due to the outstanding performance of the Panamanian economy in the last decade. Delays in investments related to the transmission system and power generation capacity, and slow progress on diversification of power generation over the last decade have not matched the accelerated increase in demand and have exposed the energy sector to droughts and the volatility of international oil prices, making the system vulnerable to energy outages and booming electricity prices. For example, during 2013 and 2014, the Government was forced to introduce emergency response measures to reduce electricity demand and prevent power outages, including restrictions on the use of air conditioning. According to the National Energy Plan, the demand for electricity will increase over 600 percent in the next thirty years in a business-as-usual scenario. Therefore, one of the key priorities for the Government is to ensure adequate supply of energy and its efficient use.

## E. Poverty and Social Impacts and Environment Aspects

### Poverty and Social Impacts



The DPF 3 supports actions that are expected to have largely neutral or positive effects on poverty reduction and income distribution in the short-term, and overall positive effects over the medium- and long-term. While some measures may have immediate implications for household income (i.e., reforms of social transfers and youth active labor market program), the majority of actions are of an institutional nature and will be broadly neutral for poverty in the short-term. Stronger institutions, an enhanced regulatory framework, and improved procedures within the public administration, are all expected to support poverty reduction and boost shared prosperity over the medium- and long-term.

#### Environment Impacts

The measures supported under the proposed DPF are not expected to have significant effects on the environment, forests or other natural resources.

### CONTACT POINT

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#### Borrower/Client/Recipient

Government of the Republic of Panama

#### Implementing Agencies

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### FOR MORE INFORMATION CONTACT

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**APPROVAL**

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