



# Appraisal Environmental and Social Review Summary

## Appraisal Stage

### **(ESRS Appraisal Stage)**

Date Prepared/Updated: 09/19/2023 | Report No: ESRSA02995



**I. BASIC INFORMATION**

**A. Basic Operation Data**

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P180872	Investment Project Financing (IPF)	Consolidation of the Panama PFM System	2024
Operation Name	Consolidation of the Panama Public Financial Management Information System		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Panama	Panama	LATIN AMERICA AND CARIBBEAN	Governance
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
Republic of Panama	Ministry of Economy and Finance	22-Sep-2023	16-Nov-2023
Estimated Decision Review Date	Total Project Cost		
17-Aug-2023	40,000,000.00		

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Proposed Development Objective

To improve the operational efficiency and quality of information of public financial management in the Republic of Panama

**B. Is the operation being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project Activities**

The project will support the consolidation of the core public financial management functions, including the integration to the broader PFM ecosystem. Similarly, the project will improve and modernize resource and administration management systems, including payrolls, customs administration, public asset, and investment management systems. The project will strengthen the capabilities of the Ministry of Economy and Finance to monitor, detect and respond to cyberattacks and ensure the continuation of government operations. Finally, the project includes the design and implementation of a comprehensive change management and capacity building strategy that will underpin the reform.



## D. Environmental and Social Overview

### D.1 Overview of Environmental and Social Project Settings

Since 2010 the Government of Panama (GoP), with support from the World Bank through the Public Sector Efficiency Technical Assistance Loan (P121492), has been implementing an ambitious PFM reform agenda focused on enhancing efficiency, transparency, and accountability in public expenditure management. Despite significant achievements, further consolidation is needed in the core PFM functions. Key issues include establishing an effective governance structure and promoting a unified vision of the PFM system among all stakeholders; expanding the coverage of the budgetary transactions captured by ISTMO (Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa), in particular with regards to non-tax revenue assessment and collection; providing better mechanisms to manage historical data to improve performance and support decision making; and adopting accounting and financial reporting measures that expand the information presented in the financial statements. The Project will have a national scale and positively impact on Panama's PFM system.

### D.2 Overview of Borrower's Institutional Capacity for Managing Environmental and Social Risks and Impacts

MEF will be responsible for the day-to-day management and implementation of the project. It will provide strategic alignment of the project with other government priorities and initiatives. Project Administration Unit (PAU) will be located within the Directorate of Project Administration at MEF and will be responsible for financial management, procurement, monitoring and evaluation, including environmental and social management. An Interagency Steering Committee with participation from MEF, the National Comptroller Office (CGR, Contraloría General de la República), and the National Customs Agency (ANA, Agencia Nacional de Aduanas) will ensure strategic alignment with the key project stakeholders. The Committee will be chaired by the Minister of MEF and will include both deputy ministers and high-ranking representatives from CGR and ANA. The Project Director, within the PAU, will report to the Steering Committee and will act as the secretary during the committee meetings. The PAU will coordinate the task teams directly responsible for implementing the work program.

MEF has experience implementing other WB Projects and installing PIUs as part of a previous projects financed by the Bank, including the Panama Open Contracting and Public Infrastructure Transparency Project (P173484), which is being implemented currently under Environmental and Social Framework (ESF), as well as other Projects under the Safeguards policies, including the Enhanced Public Sector Efficiency Technical Assistance Loan (P121492). During Project preparation, the Bank E&S team provided a introductory training to the designated PAU staff to understand the Bank's ESF and requirements for the Project's preparation and implementation. The Bank will continue to provide any necessary training and support to ensure sufficient capacities to manage and implement the project, including change management, and to comply with the World Bank procurement procedures, environmental and social management, or proper use of the country procedures in Bank projects. The PAU will assign or appoint personnel that will be responsible for environmental and social risk management, which includes ensuring proper disposal of limited e-wastes from the replacement or procurement of very few computers and proper dissemination of information and management of the Project's GRM.

## II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS



**A. Environmental and Social Risk Classification (ESRC)**

Moderate

**A.1 Environmental Risk Rating**

Moderate

The environmental risk of the Project is Moderate. The Project is not expected to have negative environmental impacts. The Project will finance consulting and advisory services, capacity building and software programming to support the consolidation and enhancement of core PFM systems. The Project will only finance minor retrofitting activities to install new IT equipment to be financed by the Project. Potential negative impacts derived from such minor retrofitting works are expected to be minor, site-specific, temporary, and reversible. The e-wastes generated from the replacement or procurement of a limited amount of electronics will be managed according to national laws, ESS3 and applicable Good International Industry Practice (GIIP ). Related e-waste and energy efficiency aspects will be considered in the Project Operational Manual (POM).

**A.2 Social Risk Rating**

Low

The proposed Project’s Social Risk is assessed as Low. The Project is not expected to have negative social impacts. The Project will finance consulting and advisory services, capacity building and training to help improve and consolidate Panama’s technological platform for PFM systems. No civil works are expected, and no planned Project activity will lead to physical displacement nor is it expected to have negative impacts on communities’ health and safety. Any potential risks related to information dissemination or exclusion of relevant stakeholders, including civil society representatives who might not receive timely information on the implementation and outputs of the Project, will be managed by implementing the Project’s Stakeholder Engagement Plan. The Project includes participatory mechanisms to ensure the inclusion of all affected stakeholders, particularly within MEF and other government agencies, and civil society organizations promoting citizen participation initiatives related to the implementation of a more open and transparent information portal.

**B. Environment and Social Standards (ESS) that Apply to the Activities Being Considered**

**B.1 Relevance of Environmental and Social Standards**

**ESS1 - Assessment and Management of Environmental and Social Risks and Impacts**

Relevant

This standard is relevant. The Project will finance consulting and advisory services, capacity building and software programming to improve the PFM systems to strengthen public accountability and transparency, enhancing key public sector management systems. Project activities will neither finance nor support any civil works activities nor the preparation of feasibility studies, technical or engineering designs, or other activities supporting the preparation or construction of physical infrastructure. At Appraisal stage, the E&S risks and impacts expected from the proposed Project are considered moderate. Given that the project will finance the procurement or replacement of a small amount of electronics (including audiovisual equipment, personal computers, and communications equipment), it may result in the generation of electronic waste (e-waste), which could cause soil and water pollution if poorly managed. E-waste generated as part of the project will need to be managed and disposed of as per the requirements defined in ESS3 and applicable Good International Industry Practice (GIIP). At Appraisal, the amount of electronics to be purchased has not yet been determined, but it is expected to be minor. The installation of new IT equipment to be procured by the Project may require minor retrofitting activities at the PAU offices, which will be determined during implementation. Potential negative environmental impacts derived from retrofitting (e.g. generation of dust, noise,

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and solid wastes) are minor, site-specific, temporary, and reversible, and will be considered in the Project Operational Manual (POM). For all technical assistance activities, consultancies, capacity building, and trainings to be financed under the Project, the requirements set out in paragraphs 14–18 of ESS1 will be applicable as relevant and appropriate to the nature of the risks and impacts, and incorporated in the ToRs. In addition, these activities, including the resulting terms of reference, work plans or other documents and outputs, will be consistent with ESS 1-10, as applicable, and especially focus on ensuring inclusion of any vulnerable groups. MEF will develop a Stakeholder Engagement Plan (SEP) to identify key stakeholders and establish processes for participatory consultations of relevant stakeholders, as per described under ESS10. The SEP will include a Grievance Redress Mechanism (GRM). MEF will include specific measures to allow continuous engagement and adequate communication strategy throughout Project implementation.

**ESS10 - Stakeholder Engagement and Information Disclosure**

Relevant

During preparation, MEF developed, consulted and disclosed a draft Stakeholder Engagement Plan (SEP) prior to Project Appraisal to identify key stakeholders, define engagement strategies during the life of the Project, detail channels for dissemination of information, and design a Project-level grievance and redress mechanisms (GRM). The SEP establishes measures to allow for continuous engagement with affected parties and adequate communication strategies to disseminate information with relevant stakeholders throughout Project implementation, which includes different units within MEF, workers associations within MEF, government agencies that interact with MEF through the PFM systems, and civil society organizations promoting citizen participation and open and transparent data portals, in line with public open data standards. The internal and external dissemination strategies will build upon consultations' main findings and will facilitate stakeholders' buy-in of the reforms. During Project preparation, the Borrower implemented an initial round of consultations with affected parties, including different directorates within MEF and other government agencies that will also benefit from the Project, such as the CGR and ANA to provide relevant stakeholders with Project information, including activities to be financed by the project, such as the specific PFM systems and processes that will be impacted by the project and potential changes as a result of these interventions, the Project's change and knowledge management strategy as well as expected Project results, and received feedback related to Project design and potential E&S risks and impacts. Under Component 2, activities related to the strengthening of public investment management systems might potentially provide an opportunity to improve stakeholder engagement in the public investment cycle. This opportunity will be further explored during the design of the Terms of Reference (ToRs) for this activity. MEF will ensure that ToRs for the design and implementation of process reforms and methodological tools for investment management consider stakeholder and Citizen Engagement (CE) mechanisms, as appropriate. The SEP includes the description of the Project-level GRM, including reception channels for grievances related to the Project, procedures to process grievances and complaints, specific considerations for SEA/SH related grievances and complaints, an estimated budget, source of funding, and personnel. The SEP will be periodically reviewed by the borrower, to ensure its proper implementation, monitoring and evaluation. The WB's Social and Environmental Specialists will guide the PAU/MEF team to identify and engage with stakeholders based on the final Project scope.

**ESS2 - Labor and Working Conditions**

Relevant

This standard is relevant. Project activities are not expected to have negative impacts related to labor and working conditions. The Project will be implemented primarily by public civil servants from MEF. The Project's PAU will hire direct workers to be responsible for Project day-to-day implementation and management, including consultants

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(individuals and firms), who will be working full-time or part-time for the project, to develop studies, strategies, guidelines, procedures and to provide advisory services, amongst others. In line with ESS2, public civil servants will remain subject to the terms and conditions of their existing public sector employment agreement or arrangement, unless there has been an effective legal transfer of their employment or engagement to the project. ESS2 will not apply to such government civil servants, except for the provisions relating to Protection of the Work Force and Occupational Health & Safety. All other Project workers will be subject to ESS2 requirements. Requirements related to labor and working conditions, including worker wellbeing and health and safety, as well as a code of conduct acceptable to the World Bank to mitigate the risk of SEA/SH or misconduct in the workplace or when engaging with stakeholders during consultation processes, are included in the ESCP and will be further elaborated in the POM, in accordance with ESS2. The POM will also ensure that national labor-related laws are upheld related to public service and related human resource policies, labor law, and institutional roles related to enforcement of the laws, including recruitment, discipline, appraisals and dismissals. The POM will include a specific section in line with the recommended LMP template. A GRM for all workers employed or contracted under the Project will be established within the POM and maintained throughout the life of the project, which will also address claims related to SEA/SH to ensure they have a mechanism in place for complaints and grievances. The requirement for the GRM and the code of conduct have been included in the ESCP and their content will be included in the POM. Potential risks and impacts that may arise from the interaction between project workers and local communities, and/or labor influx are not foreseen at this stage. Risks of forced or child labor are also not foreseen for this Project. Potential negative OHS impacts derived from potential minor retrofitting activities will be addressed in the POM. Finally, the PAU will ensure that the development of ToRs, work plans and other documents related to technical assistance are in line with the ESS2 requirements, including the updating or modernization of the national payroll software.

**ESS3 - Resource Efficiency and Pollution Prevention and Management**

Relevant

This Standard is relevant. The Project will finance the replacement or procurement of electronics (including audiovisual equipment, personal computers, and communications equipment). Although the amount to be procured has not been determined yet at Appraisal stage, it is expected to be minor. Such electronics will result in a limited amount of electronic waste (e-waste) generation later in the Project. To prevent the risk of water or soil pollution, all e-waste generated as part of the Project will need to be managed and disposed of following national regulations, international treaties, ESS3 requirements and GIIP. The PAU will guarantee that all types of e-waste are properly collected, stored, and disposed of using reputable and legitimate enterprises, keeping a registry and chain of custody of all e-waste generation and movement outside the PAU. Only licensed/controlled landfills will be used for final disposal. At Appraisal, it has been determined that the requirement of a stand-alone E-waste Management Plan is not necessary, but this will be further assessed during implementation. E-waste management measures will be included in the POM and ESCP. Potential negative environmental impacts derived from eventual minor retrofitting activities (e.g. generation of dust, noise, and solid wastes) are minor, site-specific, temporary, and reversible. These impacts and the corresponding mitigation measures will be included in the POM. In addition, the procurement of electronics will consider energy efficiency requirements, where possible.

**ESS4 - Community Health and Safety**

Relevant

This Standard is relevant. Minor retrofitting activities may cause minor inconveniences or nuisance to be neighboring communities and patrons, as a result of waste, noise and dust generation, and the presence of construction materials/works. The POM will include mitigation measures to address any potential nuisance.



**ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

Not Currently Relevant

ESS5 is not relevant. The proposed Project does not involve any land acquisition or involuntary resettlement.

**ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources**

Not Currently Relevant

ESS6 is not relevant. The proposed Project does not comprise infrastructure or civil works that might affect biodiversity or management of living natural resources.

**ESS7 - Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

Relevant

ESS7 is relevant given the national scale of the Project and the presence in the country of Indigenous Peoples meeting the four cumulative criteria of ESS7. The type of Project technical assistance activities, including consulting and advisory services, capacity building, training activities and technological platform improvement are not expected to have a direct impact on Indigenous Peoples as defined by ESS7. Once the scope of a Project activity is defined, the Borrower will reflect and incorporate pertinent requirements of ESS7, when applicable, under ToRs approved by the Bank.

**ESS8 - Cultural Heritage**

Not Currently Relevant

ESS8 is not relevant. The proposed Project is not expected to have impacts in tangible or intangible cultural heritage.

**ESS9 - Financial Intermediaries**

Not Currently Relevant

ESS9 is not relevant. The Project will not involve Financial Intermediaries.

**B.2 Legal Operational Policies that Apply**

**OP 7.50 Operations on International Waterways**

No

**OP 7.60 Operations in Disputed Areas**

No

**B.3 Other Salient Features**

**Use of Borrower Framework**

No

None.

**Use of Common Approach**

No

None.

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**C. Overview of Required Environmental and Social Risk Management Activities**

**C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by implementation?**

None.

**III. CONTACT POINT**

**World Bank**

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**IV. FOR MORE INFORMATION CONTACT**

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**V. APPROVAL**

Task Team Leader(s):	Henry Forero Ramirez
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