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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 19-Sep-2023 | Report No: PIDA0158

**BASIC INFORMATION****A. Basic Project Data**

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Panama	LATIN AMERICA AND CARIBBEAN	P180872	Consolidation of the Panama Public Financial Management Information System
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Investment Project Financing (IPF)	22-Sep-2023	16-Nov-2023	Governance
Borrower(s)	Implementing Agency		
Republic of Panama	Ministry of Economy and Finance		

Proposed Development Objective(s)

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

Components

Consolidating Core Public Financial Management Functions
 Administrative and Resource Management Functions
 Cybersecurity and IT Management
 Fiscal Transparency, Reform Sustainability and Project Management

PROJECT FINANCING DATA (US\$, Millions)**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	40.00
Total Financing	40.00
of which IBRD/IDA	40.00



Financing Gap	0.00
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DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	40.00
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Environmental And Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Despite Panama’s high economic growth, social inclusion and equity have lagged.** Strong growth over the past two decades, fueled by large investment projects and trade, turned Panama into one of the fastest growing economies in the world. Panama’s growth during 2001-2019, averaging 6.1 percent, was the highest in Latin America and the Caribbean (LAC) and was more than double the LAC’s average growth. Between 2015 and 2019, economic growth was mainly driven by large investment projects such as the Canal and Tocumen airport expansions. Poverty (using \$6.85 per person per day, 2017 Purchasing Power Parity, PPP) fell from 50.2 percent to 12.1 percent of the population between 1989 and 2019, but large inequities persist. In 2019, extreme poverty (\$3.65 2017 PPP) for non-Indigenous peoples and non-Afro-descendants was 1.3 percent, compared to 18 percent for Indigenous peoples, while poverty (\$6.85 2017 PPP) amongst Indigenous peoples was 6.8 times greater than for non-indigenous. Education and health outcomes also significantly lag peer countries. Panama scores 0.50 on the Human Capital Index (HCI), which measures how productive a child born today can expect to be by age 18 compared with a scenario where he/she would enjoy complete education and full health. This places Panama far below that of middle-income neighboring countries such as Costa Rica (0.63) and El Salvador (0.55).

2. **The 2021 and 2022 rebound from COVID-19 was strong, led by the service sector and Canal activities, allowing the fiscal consolidation process to start as mandated by the Social and Fiscal Responsibility Law (SFRL).** Real GDP growth in 2022 reached 10.5 percent driven primarily by private investment and consumption on the demand-side; and services on the supply-side. Due to the COVID-19 pandemic, overall fiscal deficit and the public-debt-to GDP ratio reached 10.2 and 68.5 percent of GDP, respectively. Stronger than expected growth improved nontax (i.e., Canal-related) revenue, which combined with a decrease in COVID-19 related transfers, wage bill containment measures, and prudent public debt management helped Panama reduce the fiscal deficit to 6.7 percent of GDP in 2021 and brought the primary deficit to 4.2 percent in 2021 (down from 7.6 percent in 2020). Public finances improved further in 2022, with the primary and



overall deficits declining to 2.2 and 3.9 percent of GDP, respectively. The government's debt-to-GDP ratio is estimated to have declined to 61.7 percent in 2022.

Sectoral and Institutional Context

3. **Over the last decade, Panama has taken important steps to strengthen and modernize its PFM system.** Since 2010 the Government of Panama (GoP) has implemented an ambitious PFM reform agenda with support from the World Bank through the Public Sector Efficiency Technical Assistance Project (P121492). Reforms focused on enhancing efficiency, transparency, and accountability in public expenditure management. The Ministry of Economy and Finance (MEF) introduced a program classification which has been piloted in several ministries. A revised public procurement law, adopted in 2018 has increased competition, curbed corruption, and introduced environmental and energy efficiency as evaluation criteria. MEF has rolled out major information systems for procurement, *Panamá Compras*, and financial management, *Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa* (ISTMO).

4. **ISTMO has significantly strengthened the PFM core functions of budgeting, accounting, and treasury management across the public administration.** ISTMO facilitated the adoption of the Governmental Financial Administration Model (*Modelo de Administración Financiera Gubernamental*, MAFG) across all central government entities and multiple other entities. Currently, 69 public sector entities (28 central government entities, 32 decentralized entities, five State Owned Enterprises (SOEs) and four Financial Intermediaries) use ISTMO as their primary tool to manage their finances. The system has strengthened budgetary controls; facilitated the operation of the treasury single account; automated integration of tax revenue and debt management systems; increased the availability of real time budget execution information; improved monitoring and evaluation; and facilitated timely preparation of statistical and financial reports.

5. **Notwithstanding, an independent diagnostic conducted in 2021 highlighted weaknesses and opportunities for further improvement that need to be addressed to enhance the sustainability of these reforms.** Chief among them was establishing an effective governance structure and promoting a unified vision of the PFM systems among all stakeholders. The report also recommended expanding the coverage of the budgetary transactions captured by the IFMIS, with regards to *inter alia*, non-tax revenue assessed and collected by line ministries; providing mechanisms to better manage historical data; improving performance monitoring and data informed decision making; and improving the integration with the rest of the PFM ecosystem¹.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

6. The project development objective is to improve the operational efficiency and quality of information of public financial management in the Republic of Panama.

Key Results

7. The PDO indicators will be the following:
- Time needed for customs duties and import taxes information to be available in the IFMIS (days)
 - Resource management systems that interoperate and exchange information with the IFMIS (number)
 - Critical information security processes at MEF certified based on international standards (percentage)

¹ The PFM ecosystem is a group of independent by highly interconnected information systems and subsystems that are used to support the mobilization, allocation, and expenditure of public funds.



D. Project Description

8. The project will contribute to enhance public expenditure efficiency and consolidate fiscal sustainability by improving both resource and expenditure management. The project will achieve this through four key areas of interventions: (1) Strengthening of core public financial management functions and improved systems integration; (2) Improving key resource management systems; (3) Improving IT management capabilities and cybersecurity; and (4) Promoting fiscal transparency and developing a change management and capacity building program to facilitate reform implementation and adoption.

9. Component 1. Consolidating Core Public Financial Management Functions: seeks to consolidate and advance some of the PFM reforms initiated under the Public Sector Efficiency Technical Assistance Loan (P121492) on the core functions of budgeting, treasury management and accounting and to address weaknesses identified in the core IFMIS. The component will support improvements in institutional arrangements, processes, methodologies, and information technologies, and strengthen functional and technical capacities within the MEF.

10. Component 2. Administrative and Resource Management Functions: seeks to improve four key functions to manage public financial, human, and material resources. All of them exchange information with the core PFM functions in one or multiple stages of the budget cycle, which makes them critical for fiscal sustainability and expenditure efficiency. This component seeks to improve processes, methodologies and develop or upgrade information systems in key areas such as public asset management, payroll, customs management and public investment management.

11. Component 3. Cybersecurity and IT Management: seeks to strengthen the MEF’s capabilities to manage its IT infrastructure and services securely and efficiently. This entails investments to strengthen protection of information resources, improve performance and resilience of information systems, and support the MEF’s digital transformation agenda.

12. Component 4. Fiscal Transparency, Reform Sustainability and Project Management: seeks to promote awareness and use of fiscal transparency tools, and reform adoption through change management and building PFM knowledge and capacity. The component will also support project management and administration activities.

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50

No

Projects in Disputed Area OP 7.60

No

Summary of Screening of Environmental and Social Risks and Impacts

13. The Environmental and Social Risk Classification is Moderate. The project is expected to generate overall positive social and environmental impacts by improving the quality of public financial management information in Panama. 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. Potential environmental risks and impacts are related to the eventual generation of e-waste from the replacement or procurement of a small amount of electronics and associated minor retrofitting activities. Related e-waste and energy efficiency aspects will be considered in the Project Operational Manual (POM). The project’s social risk is assessed as Low. The project is not expected to have negative social impacts. 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.

E. Implementation

Institutional and Implementation Arrangements

14. **The Project Administration Unit (PAU) will be responsible for project implementation.** The MEF’s Directorate of Project Administration (*Dirección de Administración de Proyecto - DAP*) will host the PAU. The World Bank will provide training to ensure sufficient capacities to manage and implement the project. The PAU will be led by a Project Director, who will be responsible for the day-to-day management of the project. The PAU will conduct financial management, procurement, and monitor and evaluation functions. It will also be responsible for change management and observing the environmental and social framework. intra

15. **The MEF will create institutional agreements with the National Customs Authority (*Autoridad Nacional de Aduanas – ANA*) and the Comptroller General’s Office (*Contraloría General de la República – CGR*) to support the delivery of the project.** The MEF will establish agreements with both entities, facilitating the seamless coordination of subcomponent delivery. Detailed information about this collaborative effort will be described in the Project Operations Manual (POM).

16. **An Interagency Steering Committee with participation from the MEF, CGR, and ANA will ensure strategic alignment among the key project stakeholders.** The Committee will be chaired by the Ministry of Economy and Finance and will include high-ranking representatives from both the deputy minister of economy, the deputy minister of finance, CGR and ANA. The Project Director will report to the Steering Committee and will act as the secretary during the committee meetings.

CONTACT POINT

World Bank

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APPROVAL

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Approved By

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